I received my PPP loan. Now what do I do?

The CARES Act was signed into law on March 27, 2020. The law was enacted in response to a crisis and moved incredible quickly through the legislative process. Due to this, guidance continues to evolve and we expect some technical corrections in future COVID-19 related legislation.

Although there has been guidance issued to some extent by the Department of Treasury on the Paycheck Protection Program (PPP) loan application process — as this stage has been the focus of attention — there has been minimal guidance to date on the process of spending funds during the 8-week period following funding of the loan. This is now the central focus of client questions, as you seek to maximize the potential for forgiveness of the PPP loan.

We wish to highlight the uncertainty of the moment. We are taking a conservative approach to reading and interpreting the law, in a manner we believe poses the least risk to our clients and partners.

Ultimately, some of our answers and advice may continue to develop as we receive more guidance and clarification.

MOWERY & SCHOENFELD

Frequently Asked Questions

QUESTION 1

Should we put the proceeds of the PPP loan in a separate bank account?

Yes, it is best practice to create a separate bank account to manage your PPP loan funds, as ultimately there may be some level of compliance and oversight as part of the loan forgiveness process. All qualifying expenditures should then be paid from this dedicated account. This will provide the best audit trail in tracing these expenditures. The goal is to avoid a situation where you have to go through an extensive amount of work to quantify and provide supporting documentation for qualifying expenditures.

QUESTION 2

When does the 8-week covered period for qualifying expenditures start?

The 8-week covered period begins on the date the PPP loan is funded.

QUESTION 3

What expenses are included in determining the amount of loan forgiveness?

The expected forgiveness amount includes the following:

- Payroll costs – defined the same manner as the determination of the PPP loan amount ($100K limit, exclude foreign employees, etc.). Note the definition of retirement benefits is very broad – the payment of any retirement benefit.
- Payment of interest on any covered mortgage obligation (in effect as of February 15, 2020).
- Payment of any covered rent obligation (in effect as of February 15, 2020).
- Covered utility payments.
- Not more than 25 percent of the loan forgiveness amount may be attributable to nonpayroll costs.

QUESTION 4

I have applied for and received my PPP loan; but it is not yet forgiven. Can I defer the employer's share of social security tax without penalties?

Yes. Employers who have received a PPP loan, but whose loan has not yet been forgiven, may defer the deposit and payment of the employer's share of social security tax that otherwise would be required to be made. This rule is in effect as of March 27, 2020 and continues until either loan forgiveness is decided or December 31, 2020, whichever comes first. Once an employer receives a decision from its lender that its PPP loan is forgiven, the employer is no longer eligible to defer deposit and payment due after that date. The deferred portion of employer's social security payments will be due:

- On December 31, 2021, 50 percent of the deferred amount; and
- On December 31, 2022, the remaining amount.

QUESTION 5

What method of accounting is used to calculate these expenses?

This is a key question that needs to be resolved. It appears that the expenses need to be incurred and paid during the covered period. This would leave no room for the prepayment of expenses for obligations outside the covered period.

QUESTION 6

If my PPP loan was funded on April 8th and payroll is on April 15th, does the entire payroll payment qualify as an expenditure during the covered period?

In order to meet the "incurred and paid" requirement described above, there will likely have to be a proration of amounts to the covered period, in this case the seven days between April 8 and April 15.

QUESTION 7

Employee A is laid off and then rehired during the covered period. Can we include their wages in our debt forgiveness calculation?

Yes, the wages of the employee hired back will count towards the debt forgiveness amount. However, this could impact the ultimate amount of loan forgiveness if the number of full-time equivalent (FTE) hours decreases during the 8-week period, or the amount of pay of a given employee decreases by more than 25% during the 8-week period. The CARES Act text states that companies have until June 30, 2020 to cure any FTE or salary reduction that would otherwise reduce the amount of potential forgiveness.

QUESTION 8

If Employee A quits and we hire Employee B, do both persons' wages count?

Yes, both persons' wages count to the extent the wages are incurred and paid during the 8-week period. There may also be an effect on the FTE calculation and for pay decreases in excess of 25%, as noted above.

QUESTION 9

If we have more qualifying expenditures in the 8-week covered period than the amount of the PPP loan, should we add more funds to the separate PPP bank account?

Yes, we recommend adding more funds to the PPP bank account as certain amounts may not qualify for forgiveness or be otherwise disqualified. Maintaining all potential qualified transactions from one account will ultimately simplify the debt forgiveness process.

QUESTION 10

How do we handle employee reimbursements or non-qualifying expenses?

Many companies include expense reimbursements to employees as part of their normal payroll payments. These amounts are clearly non-qualifying payments and should be paid separately from another account to create a more efficient audit trail.

QUESTION 11

How are partner guaranteed payments handled in all of this?

There has been a great deal of discussion as to whether partner guaranteed payments are included in initially determining the PPP loan amount, and whether these payments would represent qualifying payroll expenditures during the 8-week covered period. In the absence of further guidance, the most conservative approach is that these payments should be not be included either as part of the loan calculation or as a qualified payroll expenditure.

We are here for you!

As things continue to evolve, we will be here to guide you through any changes or questions. While our offices are now closed, our company has ensured all employees can continue to work efficiently and safely. We will ensure your tax, accounting and advisory needs are completed on time.

Please do not hesitate to reach out at any time. Please take care and stay healthy!

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