

# You Received Your PPP Loan... Now What?

Congratulations on receiving your Paycheck Protection Program loan (PPP loan) from the Small Business Administration. We hope this will help your ministry get through the next couple of months while this situation plays out. Now that you have the loan it is important that you do everything you can to make sure that the loan is forgiven after eight weeks. In roughly eight weeks, you will need to explain to the bank and the Small Business Administration how you spent the money.

Please remember that what you spend the money on, along with your records and documentation, will determine how much of the loan is forgiven. The SBA added a requirement to loan forgiveness not found in the statute - 75% of the loan must be used for payroll costs. Only 25% can be used for non-payroll costs such as mortgage interest, rent and utilities. The SBA explained that the reason this requirement was added is because the CARES Act and the PPP loan program are aimed at keeping people employed during this time. Therefore, a majority of the loan proceeds needs to be for payroll in order to be forgiven.

As a reminder, the forgivable purposes for which you can use the PPP loan proceeds are:

- Payroll costs, excluding the prorated portion of any compensation above \$100,000 per year for any person (remember independent contractors are eligible for their own PPP loans, so their compensation does not count for forgivable payroll costs)
- Mortgage interest (but not prepayments or principal payments) and rent payments, on mortgages and leases in existence before February 15, 2020
- Certain utilities, which are limited to: electricity, gas, water, transportation, and phone and internet access for service that began before February 15, 2020

These payments can be made over the eight-week period following the date of the loan. More guidance is expected to be issued soon by the SBA on loan forgiveness, and we will post that guidance when it is available. However, in the interim we have some tips based on information that is now available.

## Tip 1: Track How You Spend the Loan Proceeds

You will need to set up a way to track the disbursements of the loan proceeds so you can show that your loan should be forgiven. One way to make this easier is to set up a separate bank account for the PPP loan money. Then, only use that bank account to pay for items that can be forgiven. This will give you an easy way to show that the forgivable spending came from the PPP loan proceeds.

If you do not want to go through the process of setting up a separate bank account and you have accounting software that allows you to categorize your transactions, you can use those features to categorize and segregate the PPP loan transactions. If you use QuickBooks you could set up a separate "class" to track all of the transactions that concern the PPP loan. Just make sure to use the same class for both the income and payments made with the PPP loan money.

## Tip 2: Consider Quickly Whether to Rehire Employees or Undo a Pay Cut

Your loan forgiveness will be reduced if the average number of full-time equivalent employees per month during the eight weeks following receipt of your loan funds is less than the average number of full-time equivalent employees per month during the "benchmark period". The benchmark period can be either: 1) February 15 to June 30, 2019, or 2) January 1 to February 29, 2020. You, as the borrower, get to decide which time period will be used

as the benchmark, unless you have been determined by the SBA to be a seasonal employer (in which case, your benchmark period is the first one). **If your loan forgiveness will be reduced because you have laid off employees, you should decide as quickly as possible whether or not you are going to rehire any of those employees.**

Also, if you decreased your employees' compensation recently, you should determine whether you want to rescind that pay cut. For purposes of PPP loan forgiveness, if you reduce the wages of workers earning less than \$100,000 annually by more than 25%, as measured against the most recent full quarter, the amount in excess of that 25% reduction will also reduce the amount of your loan forgiveness.

Remember that reductions in the number of employees or compensation occurring between February 15, 2020 and 30 days after the enactment of the CARES Act (which was March 27, 2020) will generally be ignored to the extent that those reductions are reversed by June 30, 2020.

### **Tip 3: Check Payroll Cut Off and Other Payment Dates Now**

Check now how your payroll runs and take appropriate steps for payroll to be paid within the eight weeks to claim the maximum forgiveness. For example, if you pay your employees bi-weekly, make sure that the last two weeks of payroll that could be included in the forgiveness period are paid before those eight weeks are over.

Check the payment due dates for mortgage interest, rent, utilities, group health care benefits, retirement benefits and state and local taxes on employee compensation, and pay the forgivable expenses that can be paid within the eight-week period.

We expect that additional SBA guidance will provide more information on constraints on the costs that may be included in the amounts to be forgiven, and we will post that guidance when it is issued.

### **Tip 4: Document Every Disbursement**

In order to prove how you spent the loan proceeds at the end of the eight weeks, you will need to document the dollar amount, timing, and forgivable nature of every disbursement.

For example, with payroll costs you will want to document the payment amount and date with copies of payroll checks or electronic payment receipts. If there are timecards, W4s, or reports from a payroll service, you may want those documents as well.

In addition, you will need documentation verifying the average number of full-time equivalent employees per month on payroll and their pay rates during the eight-week period, as well as during the "benchmark period" as described above in Tip 2. This documentation includes payroll tax filings to the Internal Revenue Service and State income and payroll tax filings.

For employee health and retirement plan contributions, you will want to keep the checks or payment receipts to prove payment amounts and dates. Also, the monthly invoices from Concordia Plan Services should be saved as well. Please contact CPS at 1-888-927-7526 if you have any questions or need assistance.

Keep the check or payment receipt to prove payment amounts and dates paid for rent, mortgage interest and utilities. It may also be useful to collect copies of the lease, mortgage or loan agreement, and the utility service agreement (or other proof of the beginning date of service) in order to show that these agreements were entered into or service began before February 15, 2020.