

COVID Accounting Guidance

# Tips for Tracking Information to Help Maximize PPP Loan Forgiveness

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# Key insights

- Companies that have received a PPP loan should be aware of the loan forgiveness requirements as they move forward with their loan.
- Setting up an efficient tracking system will allow for successful documentation.
- Detailed records and open communication with lenders can help organizations meet the eligibility requirements for loan forgiveness.
- Many companies have received their loan approvals from the Small Business Administration (SBA). Some even have cash in their bank account and are starting to withdraw funds for expenses. In the midst of the challenges of the COVID-19 pandemic, many organizations are feeling relief now that they have some cash, but they'll need to keep the loan forgiveness requirements in mind as they move forward.
- One of the key provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act — which created the Paycheck Protection Program (PPP) loan — is the opportunity to have most, if not all, of the loan forgiven. Much of the guidance related to forgiveness is unclear at this time; however, we know companies must document qualifying expenses to receive forgiveness. Without proper documentation, there may be challenges for both lenders and companies within the next eight to 10 weeks.

# Tips for setting up successful documentation

- **Use a simple Excel spreadsheet to track your qualifying expenses.** This will allow you to see your progress in real-time and project where you will be at the end of the eight-week period. Think of an eight-week projected cash flow forecast; this discipline should give you similar visibility. To substantiate the amounts listed in the spreadsheet, gather and organize your backup documentation.
- **Employ good third-party documentation.** For example, support payroll costs using an outside payroll provider report coupled with a bank statement reflecting the funds coming out of your account.
- **Capture electronic transactions** and use them as appropriate documentation, but watch that you're treating them as you would their paper counterparts. You'll need to have the same level of detail you'd find in a paper invoice.
- **Consider setting up a separate bank account to track the funds.** Be aware of additional bank fees, as these accounts will be short-term in nature.
- **Gather and organize your information.** Each lender will likely want you to provide the documentation in a slightly different format, but it will be much easier to adapt if you've already collected your data.
- **Track expenses in the general ledger.** If you are using a cloud-based accounting system, such as QuickBooks Online (QBO) or Intacct, set up an additional class (QBO) or dimension (Intacct) to record your expenses. The general ledger tracking will be a good summary, but you will still need to include the details.

# How to document qualifying expenses

## Payroll costs

- If you use an outside payroll processing company, save a payroll report reflecting gross wages paid for each payroll incurred during the period.
- If you process payroll internally, use the pages of the payroll report that reflect total gross wages paid.
- Separate the employees (including owners taking a salary) who are paid more than \$100,000 annually, or \$15,385 during the eight-week period, as qualified gross payroll is limited to that amount per employee.
- Document other costs under the definition of “payroll costs” in the CARES Act (employer contributions to health, dental, vision, FSA, HRA, and retirement plans). Collect invoices, statements, payment advices, evidence of automatic bank debits, etc., to validate these costs.
- For state and local taxes, such as unemployment taxes, the same payroll reports as above should be adequate.
- Keep an electronic copy of your bank statement and agree the amounts from payroll reports, invoices, etc., to the entries on the statement.
- In some cases, you may want to use Federal Form 940 or 941 and summarize the portion of the amount on the form that was actually paid during the eight-week period.

# How to document qualifying expenses (cont.)

## Other qualifying expenses

- These expenses will likely be limited to 25% of the PPP loan amount.
- Use invoices, statements, payment advices, etc., to validate the costs for rent, utilities, and mortgage interest.
- Some banks may require copies of rent, lease, and mortgage loan agreements to validate commitments that were in place prior to February 15, 2020.
- If you have canceled checks that agree to the invoices, make copies and use for documentation alongside the invoice.
- Keep an electronic copy of your bank statement and agree the amounts from invoices, etc., to the entries on the statement

# Other considerations

- **Employee headcount**

Keep track of hours worked for hourly employees. Maintain copies of timecards or pull a report from an electronic timekeeping system. The hours should be tracked by week for the eight-week period.

Capture any new employees hired, regardless of whether they are hourly or salaried. Forms W-4 may be required as supporting documentation for the new hires.

- **Comparing wages**

If you have reduced the wages for any of your employees from what they were in the period prior to February 15, you must track those changes, as they could limit the forgiveness amount. Consider using the same spreadsheet you are using to track payroll costs by week to document these changes. The reductions should be supported by a comparison of a payroll report from the period prior to February 15, and from a pay period within the eight-week period of qualifying expenses.

While the lending institutions are generally allowing drawdowns on the PPP loan without significant documentation, detailed records will be important to support the loan amount to be forgiven. Technical guidance regarding the specific definitions and clarifications around which expenses are allowable will be forthcoming in the next several weeks and should be monitored closely.

Follow these guidelines to help make the conversations with your lender around forgiveness go smoothly. Communicate with your lender ahead of time so you are prepared. Keep the documentation organized electronically in a secure location on your server so you can adapt to your lender's specific requirements. In June or July, the goal should be to have all the documentation at your fingertips to help make it easier for you to substantiate and maximize your loan forgiveness.