Loan Forgiveness Details

Up to 100 percent of the PPP loan is forgivable (to the extent that employers maintain specified employment and wage levels). The loan will be fully forgiven if the loan proceeds are spent, or the qualifying costs incurred, within 8 weeks of receipt of the loan; the funds are used for payroll costs and the other Loan Uses described below, provided that at least 75 percent of the forgiven amount must have been used for payroll costs; and certain other conditions are met.

Loan Forgiveness FAQs

Here are some frequently asked questions about loan forgiveness. Guidance on loan forgiveness is evolving and rules may change, so check back for updates.

What are permitted uses for PPP loans?

- Payroll costs (as described below);
- Costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave, and insurance premiums;
- Interest on mortgage obligations, incurred before February 15, 2020;
- Rent, under lease agreements in force before February 15, 2020; and
- Utilities, for which service began before February 15, 2020

How will the amount of loan forgiveness be determined? Can a PPP loan be fully forgiven?

Yes, the amount of the loan can be fully forgiven as long as certain conditions are met. The specific amount will generally depend in part on what portion of the loan is used on payroll costs and whether the employer has maintained staffing and pay levels during the covered period.

A loan may be fully forgiven if **all** the following three conditions are met:

- The loan proceeds are spent, or qualifying costs are incurred, within 8 weeks of receipt of the loan proceeds.
- At least 75 percent of the forgiveness amount was used for payroll costs and no more than 25 percent was used for the other Loan Uses described above.

  Example: If a small business seeks 100% forgiveness on a loan for $50,000, at least $37,500 must be for payroll costs during the 8-week period following disbursement of the loan. No more than $12,500 may be for the other Loan Uses described above.
- Staffing and pay levels must be maintained during the 8-week period immediately following disbursement of the loan (see below).

When calculating the amount of loan forgiveness, how will the determination of whether my business has maintained staffing levels be made?

To determine whether adequate staffing levels have been maintained, the average number of full-time equivalent (FTE) employees per month during the 8-week period from the date of the loan will be compared to one of two time periods. Borrowers may either use the period from February 15 through June 30, 2019 or January through February of 2020. For instance, if the employer had 20 FTE employees from February through June 30, 2019 and 18 FTE employees from January through February 2020, the borrower would most likely choose the latter time period since it may be more advantageous. If the number of FTEs during the 8-week period following the loan disbursement is lower than the time period chosen, the amount of loan forgiveness may be reduced proportionately. However, reductions in staffing occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. If the staffing reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the staffing reduction is reversed by June 30, 2020.

Note: Seasonal employers may compare the average FTE employees employed per month during the 8-week period from the date of the loan to the period beginning on February 15, 2019 and ending on June 30, 2019.

When calculating the amount of loan forgiveness, how will the determination of whether my business has maintained pay levels be made?

Repayment of part of the loan may be required if an employee's earnings are reduced by 25% or more during the 8-week period from the date of the loan disbursement compared to the most recent full quarter of employment prior to the loan date. However, reductions in compensation occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. If the pay reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the pay reduction is reversed by June 30, 2020.

Note: When comparing wage levels for the purpose of loan forgiveness, employees who earned wages or a salary at an annualized rate of more than $100,000 in any pay period of 2019 aren't considered.

My company previously laid off an employee, but later offered to rehire the employee. If the employee declined the rehire offer, will my PPP loan forgiveness amount still be reduced?

The SBA has issued guidance to make clear that, as long as the company made a good faith, written offer of rehire at the same salary/wages and for the same number of hours, the employee's rejection of that offer will **not** result in a reduction of the company’s loan forgiveness amount. The company must document the employee’s rejection of the offer of rehire. Please also note that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.

How are "payroll costs" defined under the PPP?

Under the PPP, payroll costs generally include:

- Employee gross pay including salary, wages, commissions, and tips (capped at $100,000 on an annualized basis for each employee).
- All employer state and local taxes paid on employee gross pay, such as state unemployment insurance and employer-paid state disability insurance (in applicable states).
- Employer healthcare benefits, including insurance premiums.
- Retirement benefits, including defined-benefit or defined-contribution retirement plans and employer 401(k) contributions.

Note: The definition of payroll costs excludes employer federal taxes.

What happens if I use less than 75 percent of the PPP loan on payroll costs?

Some of the loan (and interest) may not be forgiven and may need to be repaid. For example, a small business received a loan for $40,000, and during the applicable 8-week period, its payroll costs are $24,000. If the employer paid $12,000 on other Loan Uses described above, only $8,000 of the nonpayroll costs can be taken into account for loan-forgiveness purposes because 75% of the forgiveness amount must be for payroll costs. This would leave an additional $8,000 (plus interest) to be repaid by the employer.

How do I apply for loan forgiveness? How long will it take?

You can apply for loan forgiveness through the lender that is servicing the loan. Lenders have 60 days to make a decision on loan forgiveness.

I used payroll cost and headcount reports for the PPP loan application. Can I use the same reports for purposes of loan forgiveness reporting?

No, the ADP payroll cost and headcount reports that were developed to support PPP loan applications cannot be used for PPP loan forgiveness purposes. ADP is currently determining the best way to support clients with respect to loan forgiveness. The government has not yet issued guidance as to many aspects of PPP loan forgiveness, such as the method of calculating and comparing full-time equivalent employees during the relevant comparison periods. Once additional guidance is available, this will help inform ADP’s approach as to how to best assist clients with the information they will have to provide to lenders for loan forgiveness.

Loan Forgiveness Checklist

Guidance on loan forgiveness is evolving and rules may change, so check back for updates. To help you maximize the forgivable amount, consider these steps:

In the 8 weeks following receipt of the loan...

- **Maintain staffing levels.**
  - Ensure that the average number of full-time equivalent (FTE) employees per month during the 8-week period from the date of the loan is at least equal to the average number of FTE employees during the period from February 15 through June 30, 2019 or January through February of 2020. If the number of FTE employees is lower during the 8-week period than during these two time periods, the amount of loan forgiveness may be reduced proportionately.*

***If applicable, reverse any reductions in staffing levels by June 30, 2020.**

- Any reductions occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. However, if the staffing/pay reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the staffing reduction is reversed by June 30, 2020. More information on the PPP may be found here.

Maintain pay levels.

- Where possible, avoid reducing any employee's earnings by 25% or more during the 8-week period from the date of the loan disbursement compared to the most recent full quarter of employment prior to the loan date. If any employee's pay is reduced by 25% or more, repayment of a corresponding part of the loan may be required.**

  Note: When comparing wage levels for the purpose of loan forgiveness, employees who earned wages or a salary at an annualized rate of more than $100,000 in any pay period of 2019 aren't considered.

****If applicable, reverse any reduction to an employee's pay by June 30, 2020.**

- Any reductions occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. However, if the pay reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the pay reduction is reversed by June 30, 2020. More information on the PPP may be found here.

Only use the PPP loan for permitted uses:

- Payroll costs (as described below);
- Costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave, and insurance premiums;
- Interest on mortgage obligations, incurred before February 15, 2020;
- Rent, under lease agreements in force before February 15, 2020; and
- Utilities, for which service began before February 15, 2020.

Spend the loan proceeds, or incur qualifying costs, within 8 weeks of loan receipt.
Use at least 75% on payroll costs during the 8 weeks after loan receipt. Payroll costs include:

- Employee gross pay including salary, wages, commissions, and tips (capped at $100,000 on an annualized basis for each employee).
- All employer state and local taxes paid on employee gross pay, such as state unemployment insurance and employer-paid state disability insurance (in applicable states).
- Employer healthcare benefits, including insurance premiums.
- Retirement benefits, including defined-benefit or defined-contribution retirement plans and employer 401(k) contributions.

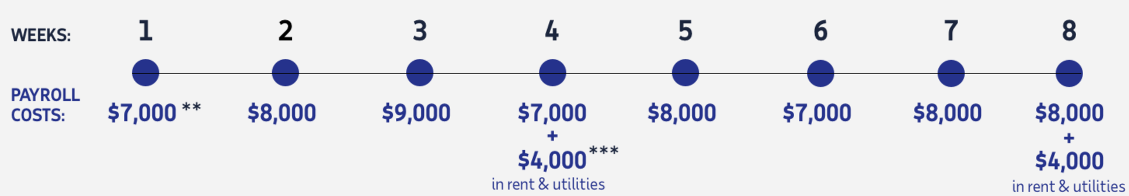
If less than 75 percent of loan is used on payroll costs, some of the loan (and interest) may not be forgiven and might need to be repaid. For example, a small business received a loan for $40,000, and during the applicable 8-week period, its payroll costs are $24,000. If the employer paid $12,000 on other Loan Uses described above, only $8,000 of the nonpayroll costs can be taken into account for loan-forgiveness purposes because 75% of the forgiveness amount must be for payroll costs. This would leave an additional $8,000 (plus interest) to be repaid by the employer.

Loan Forgiveness Scenarios

Guidance on loan forgiveness is evolving and rules may change, so check back for updates.

Scenario 1

Maria's Eyecare received a PPP loan of $70,000 on April 10, 2020. The company has 8 weeks to meet the criteria* for loan forgiveness. The timeline starts as soon as the company receives the loan.



Loan received on April 10, 2020

Loan amount:	**$70,000**
Total Used on Payroll Costs:	**$62,000**
Total Used on Other Permitted Costs:	**$8,000** (rent & utilities)
Total Amount Used for Permitted Reasons During the 8 Weeks:	**$70,000**
Percentage Used on Payroll Costs:	**88.57%**
Percentage Used on Other Permitted Costs:	**11.43%**

In the 8 weeks after receiving the loan, Maria's Eyecare didn't reduce the number of full-time-equivalent (FTE) employees and didn't reduce the pay of any employee****.

Amount Forgiven: $70,000

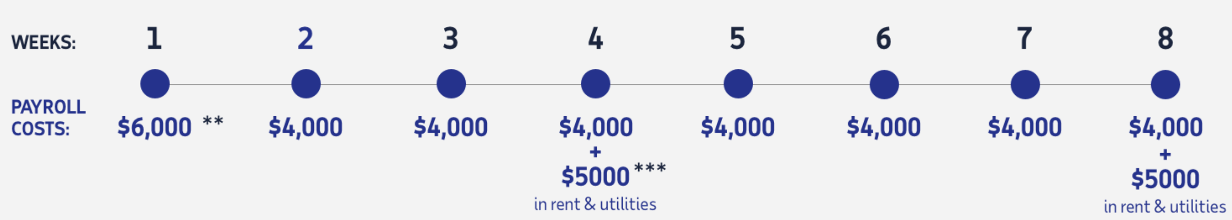
Because the company met all the criteria for loan forgiveness, the entire $70,000 loan is eligible for forgiveness.

Scenario 2

Benny's Metalworks received a PPP loan of $44,000 on April 12, 2020. The company has 8 weeks to meet the criteria* for loan forgiveness. The timeline starts as soon as the company receives the loan.

Due to a loss of several major accounts, Benny's Metalworks reduced staffing at the end of Week 1, but kept pay levels the same for remaining employees. As a result, Benny's average number of full-time equivalent (FTE) employees per month is 3 during the 8-week period from the date of the loan, down from 5 during a permissible lookback period (Benny used January through February 2020).

Here's how the company uses the loan in those 8 weeks.



Loan received on April 12, 2020		
Loan amount:	**$44,000**	
Total Used on Payroll Costs:	**$34,000**	
Total Used on Other Permitted Costs:	**$10,000**	(rent & utilities)
Total Amount Used for Permitted Reasons During the 8 Weeks:	**$44,000**	☑
Percentage Used on Payroll Costs:	**77.27%**	☑
Percentage Used on Other Permitted Costs:	**22.73%**	

Staff reduction: Since the company was not able to maintain staffing levels during the 8-week period from the date of the loan, the amount of loan forgiveness is reduced proportionately:

Staff reduction:

$$\frac{\text{3 FTE employees}}{\text{5 FTE employees}} = \mathbf{0.60}$$

Amount of Loan Eligible for Forgiveness:	**$26,400**	($44,000 x 0.60)
Amount to Be Repaid by Benny's Metalworks:	**$17,600**	(plus interest)

Note: Any staff reductions occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. However, if the staffing reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the staffing reduction is reversed by June 30, 2020.

Scenario 3

Lucy's Craft Brewery received a $40,000 loan on April 8, 2020. The company generally has 8 weeks to meet the criteria* for loan forgiveness. The timeline starts as soon as the company receives the loan.

Here's how the company uses the loan in those 8 weeks:

WEEKS:	1	2	3	4	5	6	7	8
PAYROLL COSTS:	$3000 **	$3000	$3000	$3000 + $8000 *** in rent & utilities	$3000	$3000	$3000	$3000 + $8000 in rent & utilities

Total Used on Payroll Costs:	**$24,000**
Total Used on Other Permitted Costs:	**$16,000**
Total Amount Used for Permitted Reasons During the 8 Weeks:	**$40,000**
Percentage Used on Payroll Costs:	**60%**
Percentage Used on Other Permitted Costs	**40%**

Lucy hasn't reduced staffing or pay during the 8 weeks, but her payroll costs ended up being lower than she anticipated because an employee was on paid leave under the Families First Coronavirus Response Act (FFCRA) *****. As a result, part of the loan may need to be repaid since, for the purposes of loan forgiveness, no more than 25 percent of the funds may be used for covered nonpayroll costs.

Maximum Amount of Covered Nonpayroll Costs the Loan Could Cover:	**$8,000**	(25% of Forgiveness Amount)
	+	
Amount Used on Payroll Costs:	**$24,000**	
	=	
Amount of Loan Eligible for Forgiveness:	**$32,000**	
Amount to Be Repaid:	**$8,000**	(plus interest)

Forgiveness Rules:

Conditions:

* A loan may be fully forgiven if all the following three conditions are met:

- The loan proceeds are spent, or qualifying costs are incurred, within 8 weeks of receipt of the loan proceeds.
- At least 75 percent of the forgiveness amount was used for payroll costs and no more than 25 percent was used for the other permitted Loan Uses.
- Staffing and pay levels must be maintained during the 8-week period immediately following disbursement of the loan****.

Payroll Costs:

** Under the PPP, payroll costs generally include:

- Employee gross pay, including salary, wages, commissions, and tips (capped at $100,000 on an annualized basis for each employee).
- All employer state and local taxes paid on employee gross pay, such as state unemployment insurance and employer-paid state disability insurance (in applicable states).
- Employer healthcare benefits, including insurance premiums.
- Retirement benefits, including defined-benefit or defined-contribution retirement plans and employer 401(k) contributions.

Note: The definition of payroll costs excludes employer federal taxes.

Permitted Loan Uses:

*** PPP loans may be used for:

- Payroll costs;
- Costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave, and insurance premiums;
- Interest on mortgage obligations, incurred before February 15, 2020;
- Rent, under lease agreements in force before February 15, 2020; and
- Utilities, for which service began before February 15, 2020.

Staffing Levels:

**** To determine whether adequate staffing levels have been maintained, the average number of full-time equivalent (FTE) employees per month during the 8-week period from the date of the loan will be compared to one of two time periods. Borrowers may either use the period from February 15 through June 30, 2019 or January through February of 2020. If the number of FTEs during the 8-week period following the loan disbursement is lower than one of these two time periods, the amount of loan forgiveness may be reduced proportionately. However, reductions in staffing occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. If the staffing reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the staffing reduction is reversed by June 30, 2020.

Repayment of the corresponding portion of the loan may be required if an employee's earnings are reduced by more than 25% during the 8-week period from the date of the loan disbursement compared to the most recent full quarter of employment prior to the loan date. However, reductions in compensation occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. If the pay reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the pay reduction is reversed by June 30, 2020.

***** PPP loan proceeds may not be used to pay FFCRA paid sick or family leave wages for which a tax credit is allowed.