

How to Get Full Paycheck Protection Program Loan Forgiveness

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Small businesses across the country have been impacted by the coronavirus pandemic, and many have turned to the [Paycheck Protection Program](#) (PPP) to help them keep employees on their payroll as well as cover other costs. PPP loans are low interest, require no collateral or guarantee, and—if used as the program intended—don't need to be paid back.

The PPP saw incredible demand over its first two weeks, and quickly [ran out of funding](#). The federal government is expected to fund the program again, at which point lenders will resume facilitating these loans. Hopefully, millions of small business owners around the country will be able to obtain a PPP loan—and many will seek to have these loans forgiven afterwards.

The details of loan forgiveness under the PPP can be a little unclear for some. Plus, it's not an all-or-nothing—you can have your loan only partially forgiven. Loan reduction can happen by the dollar if you use the loan other than how lawmakers prescribed it.

With that in mind, let's review the basics of Paycheck Protection Program loan forgiveness, and go over how to ensure you don't pay a cent more than you need to for this financial relief.

(Note that the terms of PPP forgiveness here explain the process as it was described under the first round of [PPP funding through](#) the CARES Act. If subsequent legislation alters these terms, we will update this article accordingly.)

Which PPP Loan Uses Will Be Forgiven?

As a refresher on the terms of PPP loans, you can borrow up to 2.5 times your average monthly payroll, up to \$10 million.

The basics of PPP loan forgiveness is as follows: You must use 100% of your funds on eligible costs within the first eight weeks of receiving your loan. Those loan costs are broken down into two categories:

Payroll Costs

At least 75% of your loan funds must go towards covering your payroll.

What does “payroll” mean? All of the following:

- Salary, wage, commissions, or similar compensations
- Payment of cash tips or equivalent
- Payment for sick, vacation, parental, family, or medical leave
- Dismissal or separation allowance
- Payments for group health care benefits, including insurance premiums
- Payments for retirement benefits
- Payments of state or local tax on employee compensation

In terms of payroll costs that are not covered: compensation for an individual employee for more than \$100,000 in annual salary; payroll taxes, railroad retirement taxes, and income taxes; compensating employees that live outside the United States; qualified sick or family leave wages for which there is a credit under the Families First Coronavirus Response Act.

As we’ll discuss below, you must also keep your employees on staff (or re-hire them before June 30, 2020 if you’ve already laid them off) and not “materially reduce” their salary.

Rent, Utilities, and Mortgage Interest

You can spend up to 25% of your loan on covering your rent, utilities, and mortgage interest.

Technically, you can use your loan to cover other debt obligations as well, such as credit card debt accrued before February 15, 2020. But this expense is not eligible for loan forgiveness, and will need to be repaid.

How Your PPP Loan Forgiveness Can Be Reduced

As mentioned, the breakdown of PPP loan forgiveness is no more than 25% on rent, utilities, and mortgage interest. The remainder of your loan must be spent on payroll costs.

If rent, utilities, and/or your mortgage for your business location is a large and pressing concern, you can allocate 25% of your loan for these costs right away, then use the remainder on payroll. You could also use 20% of your loan on rent, and the remaining 80% of payroll. Either of these examples will result in 100% of your loan—both the principal and accrued interest—being forgiven.

Let’s review two ways that you can reduce your PPP loan forgiveness down from 100%:

Spending More Than 25% of the Loan on Non-Payroll Costs

Let’s say for whatever reason, you decide to spend more than one quarter of your loan funds on rent, utilities, or mortgage interest.

To calculate how that affects your forgiveness, use this calculation: Your maximum forgivable amount will be what you do spend on payroll costs, divided by 0.75.

For example, on a \$100,000 PPP loan, spending just \$60,000 on payroll in the following eight weeks means you can have \$80,000 forgiven (\$60,000 in payroll costs = 75%, \$20,000 in non-payroll costs = 25%).

Laying Off Employees or Reducing Salary

If you lay off employees, your loan is still eligible for partial forgiveness. But that forgiveness will be reduced in proportion to the number of “full-time equivalent employees” you laid off between February 15, 2020 and April 15, 2020.

“Full-time equivalent employees” per month is the average number of full-time equivalent employees for each pay period within a month.

To calculate your loan forgiveness, you’ll divide the average number of full-time employees per month during the covered period (which is February 15, 2020 to June 30, 2020) by either:

- The average monthly employees between February 15, 2019 and June 30, 2019, or
- The average monthly employees between January 1, 2020 and February 29, 2020 (if you are not a seasonal business).

In addition, if you reduce the total salary of any employee “materially”—meaning in excess of 25% below that employee’s typical compensation—your forgiveness will be decreased by the total amount of that reduced salary during the covered period.

Keep in mind: If you reduce salaries, or lay off employees, but then undo the reduction or layoffs by June 30, 2020, your loan can be forgiven in full once again.

What About for Self-Employed Workers?

Self-employed workers, such as [independent contractors](#), are also eligible for PPP loans and loan forgiveness.

A similar set of guidelines applies to these workers: A minimum of 75% of your loan proceeds must be used to replace your lost salary, capped at \$100,000 annualized. This corresponds to eight weeks’ worth of your 2019 net profit.

The remainder of your loan must go toward the other eligible costs in order to receive full forgiveness. To spend money on these costs, you must have claimed (or been able to claim) a deduction for those expenses of your [2019 Form 1040 Schedule C](#).

How to Ensure Your PPP Loan Is Fully Forgiven

Very simply, in order to ensure you receive the maximum amount of loan forgiveness for your PPP loan, you need to track your expenses and be able to prove how you spent each dollar of your loan to your lender.

Let's go over the details of this two-step process:

Document All Loan Expenses

After the eight weeks following loan dispersal are up, you can't simply move on to new projects without proving to your lender that you spent your PPP loan appropriately.

We know that you can spend your loan on payroll or a combination of rent, utilities, and payroll. You'll therefore need documents showing your breakdown of loan expenses.

For payroll, you'll need documents that verify the number of employees on payroll as well as their salaries and wages. You can use IRS Form 941; payroll reports from a payroll provider like Gusto, Zenefits, or QuickBooks; income/payroll/unemployment insurance filings from your state; and documents that verify retirement and health insurance contributions.

For your other costs, you'll need documents that show payments of those costs, which could be canceled checks, payment receipts, or account statements.

Keep these documents handy and prepare to present them to your lender when it's time to apply for loan forgiveness.

Independent contractors, sole proprietors, and other self-employed workers can have eight weeks of their loan proceeds forgiven as salary replacement; the remainder (utility payments, etc.) requires the same sort of documents as any other business.

Follow Your Lender's Guidelines

As a reminder, though the PPP is a program administered by the SBA, you technically receive a PPP loan through a lender such as a bank or credit union. The lender is the entity that forgives your loan. (They are then reimbursed by the federal government.) You will also make payments to that lender if your loan is not fully forgiven.

For this reason, it's worth noting that there is no standardized PPP loan forgiveness process that every lender follows. Your lender may ask for specific documents or forms from you in order to qualify for forgiveness, so stay informed of their exact guidelines throughout your loan application, disbursement, and forgiveness process.

When Your PPP Loan Will Be Forgiven

Once you apply for loan forgiveness, your lender is required to make a decision regarding your request within 60 days. Within that time frame, you should receive notice that your loan has been forgiven—either fully or partially. If you made expenses with your loan reducing your loan forgiveness, you'll repay the remaining principal plus 1% interest over the remainder of your loan term.

You may decide that using your loan to pay certain costs, such as outstanding debt, or using more than 25% of it to pay your rent, is more important than receiving full forgiveness. That's fine, legal, and for some businesses it may be a necessity. Just be prepared to repay the amount that wasn't forgiven when the time comes.