

Guide to Loan Forgiveness

Purpose

The purpose of this guide is to help you achieve maximum loan forgiveness for your Paycheck Protection Loan.

Loan Forgiveness Overview

Under the terms of the program, borrowers are eligible to have their loans forgiven, as long the funds are used during the 24 week loan period, primarily for payroll costs, rent, utilities, and mortgage interest, (At least 60% must have been used for payroll), while maintaining the same average payroll as the last full quarter, at pay level that is reduced by no more than 25%.

Loan Forgiveness Reductions

Forgiveness amounts will be reduced if you have reduced employees, and/or reduce wages by more than 25% of any employees who make less than \$100,000 in annualized compensation. Every dollar greater than 25% reduction of their compensation from the previous full quarter, will be directly deducted from the forgivable loan amount.

How Much of This Loan Will Be Forgiven?

The loan forgiveness amount is equal to the amount spent on the following items during the 24-week period beginning on the first day of the loan:

- Payroll costs: 60% must be used for payroll, and 25% can be spent in the 3 areas below. [Guide to Calculating Max Loan Amount](#)
- Rent on a leasing agreement in force prior to February 15, 2020
- Payments on utilities (electricity, gas, water, transportation, telephone, or internet) in force prior to February 15, 2020
- Interest on the mortgage obligation incurred in the ordinary course of business that was in force prior to February 15, 2020

Formula for Maximum Available Forgiveness

The sum of payroll costs + rent + utilities + interest on mortgage = **Maximum available forgiveness**

The loan forgiveness cannot exceed the principal of original loan amount (not including interest).

Any amount forgiven will not be included in your taxable income.

Guide to Loan Forgiveness *(Continued)*

Can any of my loan forgiveness be reduced?

The amount of loan forgiveness calculated above will be reduced proportionally by any reduction in the number of employees and by the reduction in pay of any employee, greater than 25% of their compensation in prior full quarter. Specifically:

Reduction of loan forgiveness, based on reduction of number of employees

- The maximum available forgiveness under the rules described above multiplied by:
- Average Number of Full-Time Equivalent Employees (FTEs) per month for the loan period beginning on loan origination date divided by either (at election of the borrower)
- Option 1: Average number of FTEs per month employed from February 15, 2019 to June 30, 2019; or
- Option 2: Average number of FTEs per month employed from January 1, 2020 until February 29, 2020;

Here's an example of a reduction of number of employees

You received a loan for \$100,000. During the loan period after you received the loan, you spent \$100,000 in payroll, rent, utilities and mortgage interest. Your loan forgiveness amount would be \$100,000 before any adjustments for reductions in number of employees.

If your business had an average of 100 employees between January 1, 2020 and February 29, 2020, but had some layoffs between February 15, 2020 and June 30, 2020, resulting in an average of 80 employees during the loan period after you received the loan, here is how much you would receive:

The loan reduction formula would be:

Step 1: Divide 80 employees by 100 employees

$$80 \div 100 = 0.80$$

Step 2: Multiply \$100,000 by 0.80

$$\$100,000 \times 0.80 = \$80,000$$

Your business would be eligible for \$80,000 in forgiveness in this scenario, based on the number of employees lost.

Guide to Loan Forgiveness *(Continued)*

Reduction of Loan Forgiveness, based on reduction in wages

If you reduce the wages of any employee, whose annual salary or wages was less than \$100,000 in the most recent quarter, by more than 25%, during the loan period after loan date, the dollar amount of that wage reduction will directly reduce your loan forgiveness amount.

The formula is maximum available forgiveness **minus** the amount of any reduction in total salary or wages of any individual employee (as described above).

Example of reduction in wages:

You received a loan for \$100,000. During the loan period, you spent \$100,000 in payroll, rent, utilities and mortgage interest. Your loan forgiveness amount would be \$100,000 before any adjustments for reductions in wages.

If an employee was paid \$5,000 per month in most recent quarter before loan date, but their wages were reduced 30% to \$3,500 per month during the loan period.

Here is the formula that calculates how much you would receive:

The loan reduction formula would be:

Step 1: Add up the total wage amount reduction for loan period

\$7,000

Step 2: Subtract wage amount reduction from loan forgiveness amount

\$100,000 - \$7,000 = \$93,000

Your business would be eligible for \$93,000 in forgiveness in this scenario, based on the wage reduction.

Guide to Loan Forgiveness *(Continued)*

What if I bring back employees or restore wages?

There is relief from these forgiveness reduction penalties for employers who rehire employees or make up for wage reductions by December 31, 2020. Reductions in employment or wages that occur during the period beginning on February 15, 2020, and ending 30 days after enactment of the CARES Act, (April 26, 2020) shall not reduce the amount of loan forgiveness IF by December 31, 2020 the borrower eliminates the reduction in employees or reduction in wages.

What happens to any amount that is not forgiven?

Any loan amounts not forgiven at the end of one year are carried forward as an ongoing loan for 5 years at 1.0% interest.

What is the process for getting loan forgiveness?

There are some required processes to apply for loan forgiveness. Borrowers seeking forgiveness of amounts must submit the following documents to their lender:

- Documentation verifying full time employees on payroll and their pay rates;
- Documentation on covered costs/payments (e.g., documents verifying mortgage, rent, and utility payments);
- Certification from a business representative that the documentation is true and correct and that forgiveness amounts requested were used to retain employees and make other forgiveness-eligible payments; and
- Any other documentation the Administrator may require.

Taxes & Administration

Any amount forgiven will not be included in your taxable income.

Lenders who rely on documentation and accompanying certifications are held harmless from SBA enforcement actions and penalties relating to the loan forgiveness.

The Administrator has 30 days following enactment of the CARES Act to issue regulations on these forgiveness provisions.

Guide to Loan Forgiveness *(Continued)*

Loan Forgiveness ACTION PLAN

Action

Who

When

Appoint a task force to manage the loan forgiveness process, to ensure you maximize your forgiveness amount.

Create a financial action plan that ensures that the only use of loan proceeds go towards the funding of eligible expenses during the loan period.

Contact your banker(s) to confirm their process for loan forgiveness and what documentation they need from you.

Collect all the documents related to the eligible expenses allowed under the definition of payroll costs, rent, utilities and mortgage interest.

Keep records of all eligible use of proceeds for loan forgiveness, during the loan period.
