



**PAYSERV**  
PAYROLL SOLUTIONS

The following information reflects the most up to date guidance from the U.S. Treasury, published April 15, 2020.  
<https://home.treasury.gov/system/files/136/PPP--IFRN%20FINAL.pdf>

## The conditions of the Paycheck Protection Program (PPP)

The loan amount is based on your average monthly payroll cost for 2019. You can receive 2.5 times that amount, to help cover eight weeks of payroll.

### The funds from the PPP can be used for the following purposes:

- Payroll—salary, wage, vacation, parental, family, medical, or sick leave, health benefits limited to allowance for separation or dismissal; employer costs for the provision of employee benefits consisting of group health care coverage, including insurance premiums, and retirement; payment of state and local taxes assessed on compensation of employees; and for an independent contractor or sole proprietor, wages, commissions, income, or net earnings from self-employment, or similar compensation.
- Mortgage interest—as long as the mortgage was signed before February 15, 2020
- Rent—as long as the lease agreement was in effect before February 15, 2020
- Utilities—as long as service began before February 15, 2020

All expenses that fall under those categories are eligible for forgiveness. The following conditions will also apply:

### 1. Eight weeks of coverage

**Eligible expenses are those that are incurred over eight weeks**, starting from the day the first payment was made by your lender. This is not necessarily the date on which you signed your loan agreement.

**Depending on your payroll schedule, you may want to adjust the timing of your payroll date to accommodate as many payroll cycles as possible. This is especially important to note if you run a semi-monthly payroll.**

For example, if your PPP loan gets deposited in your bank account on April 15, you could only use the funds on expenses incurred during the eight weeks following April 15.

### 2. The 75/25 rule

**At least 75% of your loan must be used for payroll costs.** Payments to independent contractors cannot be included in the payroll costs.

### 3. Staffing requirements

**You must maintain the number of employees on your payroll.**

Here is the calculation you can use to determine if you've met this requirement:

First, determine the average number of full-time equivalent employees you had for:

- The 8-week period following your initial loan disbursement, (**A**)
- February 15, 2019 to June 30, 2019, (**B1**)
- and January 1, 2020 to February 29, 2020. (**B2**)

Take **A** and divide that by **B1**. Do the same with **B2**. Take the largest number you obtain. If you're a seasonal employer, you must divide by **B1**.

- If you get a number equal to or larger than 1, you successfully maintained your headcount and meet this requirement.
- If you get a number smaller than 1, you did not maintain your headcount and your forgivable expenses will be reduced proportionately.

#### **4. Pay requirements**

**You must maintain at least 75% of total salary.**

This requirement will be individually assessed for every employee *that did not receive more than \$100,000 in annualized pay in 2019*.

If the employee's pay over the 8 weeks is less than 75% of the pay, they received during the most recent quarter in which they were employed, the eligible amount for forgiveness will be reduced by the difference between their current pay and 75% of the original pay.

#### **5. Rehiring grace period**

You can rehire any staff that were laid off or put on furlough and reinstate any pay that was decreased by more than 25% to meet the requirements for forgiveness. You have until June 30th to do so.

### **Forgiveness for self-employed individuals**

You are entitled to use the PPP loan to replace lost compensation due to the impacts of COVID-19. However, you are not entitled to use the full amount to replace pay. Eight weeks' worth of your 2019 net profit will be eligible for forgiveness.

If you have mortgage interest, rent, or utilities expenses, you must have claimed or be entitled to claim a deduction for those expenses on your 2019 [Form 1040 Schedule C](#) in order to claim them for forgiveness.

For example, if you worked in an office space in 2019 and did not have a home office, you could not have claimed a deduction on your home mortgage interest. Even if you are currently working at home now, you are not eligible to claim home mortgage interest payments for forgiveness.

### **After the eight weeks: applying for loan forgiveness**

Applications for loan forgiveness will be processed by your lender. They'll provide you with instructions on where to apply

After you submit your application for forgiveness, your lender is required by law to provide you with a response within 60 days.

### **Recordkeeping and required documents for forgiveness**

These are the required documents you will need to collect to provide with your PPP forgiveness application. Your lender may have additional requirements.

- Documents verifying the number of full-time equivalent employees on payroll and their pay rates, for the periods used to verify you met the staffing and pay requirements:
- Payroll reports from your payroll provider – *we are currently working on this report and expect to have a draft report on our system shortly but expect further guidance from the US Treasury prior to time of submittals starting.*
- Payroll tax filings (Form 941)
- Income, payroll, and unemployment insurance filings from your state
- Documents verifying any retirement and health insurance contributions
- Documents verifying your eligible interest, rent, and utility payments (canceled checks, payment receipts, account statements)

If you're a sole proprietor, you can have eight weeks of the loan forgiven as a replacement for lost profit. But you'll need to provide documentation for the remaining two weeks' worth of cash flow, proving you spent it on mortgage interest, rent, lease, and utility payments.

Good recordkeeping and bookkeeping will be critical for getting your loan forgiven—you'll need to keep track of eligible expenses and their accompanying documentation over the eight weeks. Your lender will likely require these documents in digital format, so take the time to scan any paper documents and keep backups of your digital records.

## What happens if I'm not approved for forgiveness?

Your lender may allow you to provide additional documentation so they can reevaluate your request.

Otherwise, your outstanding balance will continue to accrue interest at 1%, for the remainder of the 2-year period.

There is no prepayment penalty. You can pay off the outstanding balance at any time with no additional fees.

## FAQs

### Can I prepay my rent or mortgage?

No, prepayment is not an allowed use of the PPP and is not eligible for forgiveness.

### What counts as mortgage interest?

Any interest paid on mortgage on property used for business purposes is an eligible expense that the PPP can be used for and qualifies for forgiveness.

### How is eight weeks of net profit from 2019 calculated?

Your net profit that was reported on your Form 1040 Schedule C is multiplied by 8/52.

**We strongly recommend you contact your accountant to ascertain the best way to plan and track for forgiveness submittal. We will continue to keep you updated as more guidance is provided.**