

PAYCHECK PROTECTION PROGRAM (PPP)

April 2020

Once the PPP has been approved and funded, develop a plan that maximizes debt forgiveness and complies with the requirements of the loan. The plan also needs to make good business sense!

Key Elements of Forgiveness

1. The eight (8)-week time period starts on the date of the loan disbursement. Only dollars spent in the eight (8) weeks will be eligible for forgiveness.
2. Funds must be spent on eligible expenses which include: payroll expenses to include salaries, wages, commissions, tips, etc., up to \$100,000 on a prorated basis;
 - a. the cost of providing group healthcare;
 - b. the employer's retirement cost;
 - c. the employer's state and local taxes;
 - d. rent, mortgage interest; and
 - e. utilities.

NOTE: Eligible expenses do NOT include 1099 contractor payments but may include K1 Partners if they are set up as a Guaranteed Payment Partner up to \$100,000.

3. No more than 25% of the forgivable amount can be on non-payroll expenses (the 75/25 rule). In other words, at least 75% of the loan must be spent on payroll for the entire loan to be forgivable.
4. There are reductions in the amount of forgiveness measured as a percentage of the decrease in average full-time equivalent (FTE) employees during the 8-week period as compared to February 15, 2019 to June 30, 2019, or January 1, 2020 through February 29, 2020, whichever is more favorable.
5. There is a further reduction if you have reduced your employees' pay by more than 25% (Payroll reduction).
6. The key to debt forgiveness will be maintaining the appropriate documentation of how the funds were spent.



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Accounting for the PPP Loan

1. Record the proceeds from the PPP loan as a debt on the Balance Sheet.
2. Although interest and principal payments are deferred for six months, interest should be accrued at the stated rate of 1% on a monthly basis. The 1% interest should be accrued on GAAP financials and a footnote on cash basis financials. It is possible that the interest will be eligible for forgiveness; however, guidance is not clear on this.
3. Documentation will be required for the debt to be forgiven – it will be up to the lender as to what is required but at a minimum:
 - a. documentation verifying the number of FTE employees on payroll and pay rates for the baseline period and the 8-week period;
 - b. payroll tax filings to the Internal Revenue Service (IRS) for state income, payroll and unemployment figures;
 - c. documentation, including cancelled checks, payment receipts, transcripts of accounts or other documents verifying payments on covered mortgages, lease, utility; and
 - d. certification from a representative of the company that the documentation is true and correct, amount for which forgiveness is requested was used in accordance with the PPP guidelines, and any other documentation necessary required by the lender.

The team at B2 Management & Consulting are ready to assist you. Give us a call!

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