

PPP Loan Forgiveness Calculation

Our calculation of basic loan forgiveness from the PPP webinar was **INCORRECT**.

If a taxpayer does not spend at least 75% of the PPP loan proceeds on payroll, then the 25% allowed for other expenses is reduced for the percentage that payroll did not equal 75% of the loan amount.

Example: \$100,000 PPP Loan. \$50,000 used for payroll; \$50,000 used for other qualified expenses.

The payroll component ended up at 50% of the loan amount, not 75%. Therefore this expenditure was 67% of the 75% target. ($\$50,000 \text{ payroll} / \$75,000 \text{ 'target'} = 66.66667\%$)

This 66.666667% of the target is used to reduce the maximum 25% allowed for other qualified expenses.

$\$100,000 \text{ PPP Loan amount} \times .25 = \$25,000$. $66.66667\% \text{ of } 25,000 = \$16,666.67$

Maximum loan forgiveness = \$66,666.67 (\$50,000 payroll; \$16,666.67 other qualified expenses)

This does NOT take into consideration other loan reduction factors such as change in FTEs or reduction in salaries paid which we discussed on the previous blog

PPP Loan Forgiveness—Qualified Expenses

What Constitutes 'Rents' as Qualified Expenses?

www.sba.gov/sites/default/files/2020-05/3245-0407%20SBA%20Form%203508%20PPP%20Forgiveness%20Application.pdf

Line 3: Enter the amount of business rent or lease payments for real or personal property during the Covered Period, pursuant to lease agreements in force before February 15, 2020.

Examples include leases on buildings, vehicles, equipment leases, storage unit rentals etc.

- ◆ Make certain a **written lease agreement** is in place before Feb. 15, 2020
- ◆ Remember, these are also expenses that would be deductible as reasonable and necessary business expenses

PPP Loan Forgiveness—“Payroll” for Self Employed

What is ‘payroll’ for a self-employed person?

For sole proprietors and independent contractors, **payroll** costs are **defined** as net earnings from **self-employment**, capped at \$100,000 on **an annualized basis** per individual **‘employee’**.

- ◆ Use line 31 of Schedule C, or line 34 of Schedule F
- ◆ For ‘Covered Period’ don’t use > \$15,385 for self-employed person’s ‘payroll’
- ◆ If business has other employees, those wages can be added to owner’s ‘payroll’

PPP Loan Forgiveness—S/H-Employee Payroll

What is 'payroll' for an S-corp shareholder-employee?

- ◆ For an S corp shareholder-employee, payroll is the W-2 wage paid to this person.
- ◆ Don't use the S corp net profit
- ◆ Don't add distributions to the shareholder to the payroll
- ◆ You can add health benefits paid and retirement benefits paid by the S corp during the Covered Period.

PPP Loan Forgiveness—Gross Payroll for Employees

What can be added to gross payroll for employees during the Covered Period?

- ◆ Employer contributions for employee health insurance
- ◆ Employer contributions to employee retirement plans
- ◆ Employer state and local taxes assessed on employee compensation
- ◆ These amounts can also be added to the \$15,385 maximum payroll amount for the Covered Period.

PPP Loan Forgiveness—Proving Payroll When No Employees

How to prove payroll when there is no payroll? (self-employed persons with no employees)

- For the self-employed person with no employees, use Sch. C line 31, or Sch. F line 34 from 2019 to calculate the 'payroll' eligible for borrowing.....
- On loan repayment during the covered period...sole prop should write checks to self during covered period to show 'payroll' was 'paid' (56 days from receipt of the loan). Maximum that counts for 'payroll' during the covered period is \$15,385 (\$100,000 maximum/52*8)
- To document these payments to lender, self-employed person won't have 941s etc., but will have check registers and bank statements to show the \$\$ ('payroll') leaving the business account and going to personal bank account during the covered period....

PPP Loan Forgiveness—Utilities

What is included in definition of “Utilities”?

Business payments for a service for the distribution of:

- ◆ Electricity, gas, water, transportation, telephone, or Internet access for which service began before Feb. 15, 2020.