Payroll Protection Program Loan: Best Practices Post Loan Origination

In the wake of the COVID-19 crisis, the federal government passed the CARES Act which included, among other provisions, the Payroll Protection Program (PPP). This program provided loans to qualifying small and mid-sized business based on 2.5 times their monthly payroll costs, while also including loan forgiveness provisions. Shortly after the CARES Act passed, a barrage of authoritative literature and interpretative guidance was issued from the Small Business Administration, the U.S. Department of Treasury, and many other sources. However, most of this information was focused on the application process. This document provides suggested practices to our clients who have received PPP loan funding on how to maximize the loan forgiveness aspect of the PPP program.

**Tip #1: Understanding the basics.** Although potential uses of the loan proceeds are far ranging, the loan forgiveness rules require the money to be used in very specific ways. Guidance addressing maximum loan forgiveness suggests that loan recipients remember these basics:

a. At least 75% of the loan funds should be used on **qualified payroll expenses**. Lyons HR has in place payroll codes for FFCRA leave and sick time which are excluded from the PPP loan forgiveness, so be sure to properly report your time.

b. The following non-labor items also qualify for loan forgiveness:
   - **Interest on mortgage**—This applies to the interest portion of payments of mortgage obligations that were incurred before February 15, 2020. Note that mortgage principal and interest prepayments do not qualify.
   - **Rent**—Any payment of rent under a lease agreement that was in place before February 15, 2020 qualifies.
   - **Utilities**—Payments related to the following services: gas, electricity, water, transportation, telephone, or internet access. The catch here is that services must have begun before February 15, 2020.

**Tip #2: Timing is everything.** As with most things in life, the timing of when you use the PPP Loan proceeds is extremely important. Loan forgiveness applies to expenses paid for and incurred during the first 8 weeks (or 56 days). The clock starts ticking the day you receive your loan proceeds.

**Tip #3: Get organized.** Absent the creation of specific general ledger accounts used to track qualified PPP loan expenses, consider basic alternatives. At Lyons HR, our finance team has developed a simple Excel tracking sheet that is keeping a detailed of accounting of the following expense attributes:

a. **Expense item #**—This is just a sequential number so each instance of an expense has a unique number. Don’t overthink it...start with 1 and keep going.

b. **Legal Entity**—This tracks the name of entity that is paying the bill. If you only operate with a single legal entity, this step may not apply to you.
c. **Vendor**—Use the name of the vendor contained on the invoice, statement, or lease/mortgage agreement.
d. **Invoice/Statement Number**—This will usually come from the copies of the invoice provided by your accounting or AP person.
e. **Check Number, ACH Number or Wire Number**—Keep track of the unique identifier associated with each disbursement.
f. **Amount**—This is an obvious item as understanding the amount of forgiveness is predicated on the amount you spend.
g. **Category**—We are using the categories outlined in Tip #1 above (Payroll, Mortgage Interest, Utilities, and Rent). It may also be beneficial to use subcategories in the event you have expenses you aren’t sure can be forgivable. This will allow for easier reporting when requesting loan forgiveness.
h. **Date Paid**—Remember the 8-week/56-day rule.

**Tip #4**: Invoice and check copies. Sit down with your AP and accounting team and review the program rules. Ask them to make copies of invoices, vendor statements, and checks and combine those copies into a single PDF file that is numbered in a corresponding manner to the Expense Item # contained in the spreadsheet referenced in Tip #3 above.

**Tip #5**: Separate bank accounts. Although not necessary, placing your proceeds in a separate account may provide an easier method of tracking loan proceeds and uses therein.

**Tip #6**: Cast a wide net. Although we expect additional guidance on allowable expenses, for now track expenses such as cell phones, equipment rental, mileage, and server costs associated with internet phone systems as these expenses could be considered forgivable. It is better to ask the question and receive a negative response than to not ask the question at all. Talk to your banking institution to see how they would like you to track expenses and what things qualify. Communication is key.

**Tip #7**: Consult experts. Talk to your CPA to ensure you are maximizing your loan forgiveness opportunity. Also, your PEO can provide useful reporting on the payroll reports covering the 8-week period.

**Tip #8**: Monitor headcount. Loan forgiveness is adversely impacted by reductions in headcount. As such, understanding how many people you have on payroll is helpful in making hiring and termination decisions and how those decisions impact PPP loan forgiveness.

In addition to these tips, below are a list of FAQ’s issued by the federal government relating to topics after your PPP loan is received.

**Question**: Do PPP loans cover paid sick leave?

**Answer**: Yes. PPP loans covers payroll costs, including costs for employee vacation, parental, family, medical, and sick leave. However, the CARES Act excludes qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116–127). Learn more about the Paid Sick Leave
Refundable Credit here. (Source: Department of Treasury Payroll Protection Program Loans Frequently Asked Questions April 15, 2020)

**Question:** How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?

**Answer:** Under the Act, payroll costs are calculated on a gross basis without regard to (i.e., not including subtractions or additions based on) federal taxes imposed or withheld, such as the employee’s and employer’s share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer, but payroll costs do not include the employer’s share of payroll tax. For example, an employee who earned $4,000 per month in gross wages, from which $500 in federal taxes was withheld, would count as $4,000 in payroll costs. The employee would receive $3,500, and $500 would be paid to the federal government. However, the employer-side federal payroll taxes imposed on the $4,000 in wages are excluded from payroll costs under the statute. (Source: Department of Treasury Payroll Protection Program Loans Frequently Asked Questions April 15, 2020)

**Question:** The amount of forgiveness of a PPP loan depends on the borrower’s payroll costs over an eight-week period; when does that eight-week period begin?

**Answer:** The eight-week period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the first disbursement of the loan no later than ten calendar days from the date of loan approval. (Source: Department of Treasury Payroll Protection Program Loans Frequently Asked Questions April 15, 2020)