PPP LOAN AND FORGIVENESS FAQs

For more information, visit our COVID-19 Resource Page to view documents dedicated to the PPP Program and to PPP Forgiveness.

What is included in “payroll costs?”
Compensation to employees (whose principal place of residence is the United States) in the form of:

- Salary, wages, commissions, or similar compensation;
- Cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips);
- Payment for vacation, parental, family, medical, or sick leave;
- Allowance for separation or dismissal;
- Payment 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.

What is excluded from “payroll costs?”
The Act expressly excludes the following:

- Any compensation of an employee whose principal place of residence is outside of the United States;
- The compensation of an individual employee in excess of an annual salary of $100,000, prorated as necessary;
- Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020, including the employee's and employer's share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes, and income taxes required to be withheld from employees; and
- Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act.

When must payroll costs be incurred and/or paid to be eligible for forgiveness?
In general, payroll costs paid or incurred during the eight consecutive week (56 days) covered period are eligible for forgiveness. Borrowers may seek forgiveness for payroll costs for the eight weeks beginning on either:

- The date of disbursement of the borrower's PPP loan proceeds from the Lender (i.e., the start of the covered period); or
- The first day of the first payroll cycle in the covered period (the “alternative payroll covered period”).

Payroll costs are considered paid on the day that paychecks are distributed or the borrower originates an ACH credit transaction. Payroll costs incurred during the borrower’s last pay period of the covered period or the alternative payroll covered period are eligible for forgiveness if paid on or before the next regular payroll date; otherwise, payroll costs must be paid during the covered period (or alternative payroll covered period) to be eligible for forgiveness. Payroll costs
are generally *incurred* on the day the employee’s pay is earned (i.e., on the day the employee worked).

A borrower with a bi-weekly (or more frequent) payroll cycle may elect to use an alternative payroll covered period that begins on the first day of the first payroll cycle in the covered period and continues for the following eight weeks. If payroll costs are incurred during this eight-week alternative payroll covered period, but paid after the end of the alternative payroll covered period, such payroll costs will be eligible for forgiveness if they are paid no later than the first regular payroll date thereafter.

**Are salary, wages, or commission payments to furloughed employees; bonuses; or hazard pay during the covered period eligible for loan forgiveness?**

Yes. The CARES Act defines the term “payroll costs” broadly to include compensation in the form of salary, wages, commissions, or similar compensation. If a borrower pays furloughed employees their salary, wages, or commissions during the covered period, those payments are eligible for forgiveness as long as they do not exceed an annual salary of $100,000, as prorated for the covered period. If an employee’s total compensation does not exceed $100,000 on an annualized basis, the employee’s hazard pay and bonuses are eligible for loan forgiveness because they constitute a supplement to salary or wages, and are thus a similar form of compensation.

**Are there caps on the amount of loan forgiveness available for owner-employees and self-employed individuals’ own payroll compensation?**

Yes, the amount of loan forgiveness requested for owner-employees and self-employed individuals’ payroll compensation can be no more than the lesser of 8/52 of 2019 compensation or $15,385 per individual in total across all businesses.

- Owner-employees are capped by the amount of their 2019 employee cash compensation and employer retirement and health care contributions made on their behalf.
- Schedule C filers are capped by the amount of their owner compensation replacement, calculated based on 2019 net profit.
- General partners are capped by the amount of their 2019 net earnings from self-employment (reduced by claimed section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235.

No additional forgiveness is provided for retirement or health insurance contributions for self-employed individuals, including Schedule C filers and general partners, as such expenses are paid out of their net self-employment income.

**Do I count all employees or only full-time equivalent employees in my headcount?**

For purposes of loan *eligibility*, the CARES Act defines the term employee to include “individuals employed on a full-time, part-time, or other basis.” A borrower must therefore calculate the total number of employees, including part-time employees, when determining their employee headcount for purposes of the eligibility threshold.

- For example, if a borrower has 200 full-time employees and 50 part-time employees each working 10 hours per week, the borrower has a total of 250 employees.

By contrast, for purposes of loan *forgiveness*, the CARES Act uses the standard of “full-time equivalent employees” to determine the extent to which the loan forgiveness amount will be reduced in the event of workforce reductions.
What does “full-time equivalent employee” mean?

Full-time equivalent employee means an employee who works 40 hours or more, on average, each week. For purposes of this calculation, borrowers must divide the average number of hours paid for each employee per week by 40, capping this quotient at 1.0.

- For example, an employee who was paid 48 hours per week during the covered period would be considered to be an FTE employee of 1.0.

For employees who were paid for less than 40 hours per week, borrowers may choose to calculate the full-time equivalency in one of two ways:

- Calculate the average number of hours a part-time employee was paid per week during the covered period.
  - For example, if an employee was paid for 30 hours per week on average during the covered period, the employee could be considered to be an FTE employee of 0.75. Similarly, if an employee was paid for ten hours per week on average during the covered period, the employee could be considered to be an FTE employee of 0.25.
- For administrative convenience, borrowers may elect to use a full-time equivalency of 0.5 for each part-time employee.

Will my forgiveness amount be reduced if I laid off an employee, offered to rehire the same employee, and they declined the offer?

No. Employees whom the borrower offered to rehire are generally exempt from the CARES Act’s loan forgiveness reduction calculation. This exemption is also available if a borrower previously reduced the hours of an employee and offered to restore the employee’s hours at the same salary or wages. Specifically, in calculating the loan forgiveness amount, a borrower may exclude any reduction in full-time equivalent employee headcount that is attributable to an individual employee if:

- The borrower made a good faith, written offer to rehire such employee (or, if applicable, restore the reduced hours of such employee) during the covered period or the alternative payroll covered period;
- The offer was for the same salary or wages and same number of hours as earned by such employee in the last pay period prior to the separation or reduction in hours;
- The offer was rejected by such employee;
- The borrower has maintained records documenting the offer and its rejection; and
- The borrower informed the applicable state unemployment insurance office of such employee’s rejected offer of reemployment within 30 days of the employee’s rejection of the offer.

In addition, PPPFA extends the rehire date to December 31, 2020, and it adds additional exceptions for a reduced headcount. A business is still able to receive forgiveness on payroll amount if it:

- Is unable to rehire an individual who was an employee of the eligible recipient on or before February 15, 2020
- Is able to demonstrate an inability to hire similarly qualified employees on or before December 31, 2020; or
• Is able to demonstrate an inability to return to the same level of business activity as such business was operating at prior to February 15, 2020

**What if my employee headcount is reduced due to circumstances not related to COVID-19?**
The Loan Forgiveness Application provides a new FTE Reduction Exemption for borrowers whose employees were (1) fired for cause, (2) voluntarily resigned, or (3) voluntarily requested and received a reduction of their hours.

When an employee of the borrower is fired for cause, voluntarily resigns, or voluntarily requests a reduced schedule during the covered period or the alternative payroll covered period (FTE reduction event), the borrower may count such employee at the same full-time equivalency level before the FTE reduction event when calculating the FTE employee reduction penalty section of the Forgiveness Application.

Borrowers that avail themselves of this *de minimis* exemption shall maintain records demonstrating that each such employee was fired for cause, voluntarily resigned, or voluntarily requested a schedule reduction. The borrower shall provide such documentation upon request.

**What effect does a reduction in a borrower’s number of full-time equivalent (FTE) employees have on the loan forgiveness amount?**
In general, a reduction in FTE employees during the covered period or the alternative payroll covered period reduces the loan forgiveness amount by the same percentage as the percentage reduction in FTE employees.

The borrower must first select a reference period:
- February 15, 2019 through June 30, 2019;
- January 1, 2020 through February 29, 2020; or
- In the case of a seasonal employer, either of the two preceding methods or a consecutive 12-week period between May 1, 2019 and September 15, 2019.

If the average number of FTE employees during the covered period or the alternative payroll covered period is less than during the reference period, the total eligible expenses available for forgiveness is reduced proportionally by the percentage reduction in FTE employees.

- For example, if a borrower had 10.0 FTE employees during the reference period and this declined to 8.0 FTE employees during the covered period, the percentage of FTE employees declined by 20 percent and thus only 80 percent of otherwise eligible expenses are available for forgiveness.

Borrowers are exempt from the FTE reduction if for the period beginning February 15, 2020, and ending December 31, 2020, the Borrower can document:
- An inability to rehire employees who were employed as of February 15, 2020 and an inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020, or
- An inability to return to the same level of business activity as such business was operating at before February 15, 2020, due to compliance with requirements and guidelines issued by Health and Human Services, CDC or OSHA during March 1, 2020 to December 31, 2020 related to certain protocols for responding to COVID-19

**What effect does a borrower’s reduction in employees’ salary or wages have on the loan forgiveness amount?**
A reduction in an employee’s salary or wages in excess of 25 percent will generally result in a reduction in the loan forgiveness amount, unless an exception applies. Specifically, for each new employee in 2020 and each existing employee who was not paid more than the annualized equivalent of $100,000 in any pay period in 2019, the borrower must reduce the total forgiveness amount by the total dollar amount of the salary or wage reductions that are in excess of 25 percent of base salary or wages between January 1, 2020 and March 31, 2020 (the reference period), subject to exceptions for borrowers who restore reduced wages or salaries. This reduction calculation is performed on a per employee basis, not in the aggregate.

**If a borrower restores reductions made to employee salaries and wages or FTE employees by not later than June 30, 2020, can the borrower avoid a reduction in its loan forgiveness amount?**

Yes. If certain employee salaries and wages were reduced between February 15, 2020 and April 26, 2020 (the safe harbor period) but the borrower eliminates those reductions by December 31, 2020 or earlier, the borrower is exempt from any reduction in loan forgiveness amount that would otherwise be required due to reductions in salaries and wages under the CARES Act. Similarly, if a borrower eliminates any reductions in FTE employees occurring during the safe harbor period by December 31, 2020 or earlier, the borrower is exempt from any reduction in loan forgiveness amount that would otherwise be required due to reductions in FTE employees.

**When must nonpayroll costs be incurred and/or paid to be eligible for forgiveness?**

A nonpayroll cost is eligible for forgiveness if it was (1) paid during the covered period; or (2) incurred during the covered period and paid on or before the next regular billing date, even if the billing date is after the covered period.

- Example: A borrower’s covered period begins on June 1 and ends on July 26. The borrower pays its May and June electricity bill during the covered period and pays its July electricity bill on August 10, which is the next regular billing date. The borrower may seek loan forgiveness for its May and June electricity bills, because they were paid during the covered period. In addition, the borrower may seek loan forgiveness for the portion of its July electricity bill through July 26 (the end of the covered period), because it was incurred during the covered period and paid on the next regular billing date.

**Are advance payments of interest on mortgage obligations eligible for loan forgiveness?**

No. Advance payments of interest on a covered mortgage obligation are not eligible for loan forgiveness because the CARES Act’s loan forgiveness provisions regarding mortgage obligations specifically exclude “prepayments.” Principal on mortgage obligations is not eligible for forgiveness under any circumstances.

**What if I own more than one business?**

Each independent business is eligible to apply for its own PPP loan. However, please note that you may encounter challenges in getting relief funding if your businesses don’t have cleanly separated finances. If you own more than one business, it’s imperative that you maintain separate bookkeeping for each business. This will be especially helpful when it comes to reporting your expenses for loan forgiveness.
I'm self-employed and work from home. How do I calculate my home office or studio expenses?

Home office or studio expenses are generally calculated in proportion to how much your business space takes up relative to your entire home.

- Example: if your home office/studio is 200 square feet and your home is 1,600 square feet, your office/studio takes up 12.5% of your home. You can claim 12.5% of your eligible expenses as home office/studio expenses.
  - If you rent a home for $920 a month, and spend $80 on utilities, you spend a total of $1,000. 12.5% of that ($125) can be paid for with PPP funds and can be fully forgiven.

Home office/studio expenses only apply to expenses that are tied to the business.
In order to be forgiven, home office/studio expenses must have been claimed as business expenses on your 2019 Form 1040 Schedule C.

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I’m an independent contractor/self-employed. What if I don’t have enough business expenses to make up 25% of my loan?
You may have a few options if you do not have enough expenses outside of your own compensation to make up 25% of your total loan amount:
  1. Work with your lender to negotiate a lower loan amount
  2. Keep the remaining balance as a 1% interest, 2 year loan
  3. Return the unspent balance. There is no penalty for PPP loan prepayment.

When will I receive my loan?
Lenders are required to disburse loan money within 10 days of SBA approval.

What if my application is denied?
If you are denied by your bank, you can submit a new PPP loan application through a different lender. If you are denied by SBA, you may not reapply for a PPP loan.

Additional questions?
We understand you may have additional unanswered questions. The Arts & Business Council will regularly publish updated information regarding small business loan assistance as it is made available, and we invite any questions you may have in the meantime.