

10 Steps

to Paycheck Protection Program Loan Forgiveness



WHAT IS THE EXACT CALCULATION FOR DETERMINING LOAN FORGIVENESS?

Step 1: Separate the categories of permitted uses of the Paycheck Protection Program Loan (PPPL) into the following:



- A. **Payroll Costs:** includes costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums; employee salaries, commissions, or similar compensations; state and local taxes.
- B. **Non-Payroll Costs:** includes payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation); rent (including rent under a lease agreement); utilities; and interest on any other debt obligations that were incurred before the covered period.

Step 2: Calculate the total amount of your PPP loan spent in the 8-week period following disbursement of your loan for each category.



Example 1 (Total Non-Payroll Costs exceed 25%)

Type of Cost	Expense	Amount
Payroll Cost	Wages	\$300,000
Payroll Cost	Health Care Premiums	\$10,000
Payroll Cost	State and Local Taxes	\$5,000
	Total Payroll Costs	\$315,000
Non Payroll Cost	Rent	\$90,000
Non Payroll Cost	Internet, Phone, Electric	\$2,000
Non Payroll Cost	Mortgage Interest	\$40,000
	Total Non-Payroll Costs	\$132,000

Example 2 (Total Non-Payroll Costs do not exceed 25%)

Type of Cost	Expense	Amount
Payroll Cost	Wages	\$300,000
Payroll Cost	Health Care Premiums	\$10,000
Payroll Cost	State and Local Taxes	\$5,000
	Total Payroll Costs	\$315,000
Non Payroll Cost	Rent	\$90,000
Non Payroll Cost	Internet, Phone, Electric	\$2,000
Non Payroll Cost	Mortgage Interest	\$10,000
	Total Non-Payroll Costs	\$102,000

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Step 3:



Add the total amount of Payroll Related Costs and Non-Payroll Related Costs ("Total PPP Spend").

Example 1: Payroll Costs (\$315,000) + Non-Payroll Costs (\$132,000)
= **\$447,000 (Total PPP Spend)**

Example 2: Payroll Costs (\$315,000) + Non-Payroll Costs (\$102,000)
= **\$417,000 (Total PPP Spend)**

Step 4:



Multiply the Total PPP Spend by 25% to get the limit of the Total Potential Forgivable Non-Payroll Related Costs. Any monies spent on Non-Payroll Related Costs above and beyond the Total Potential Forgivable Non-Payroll Related Costs are not eligible for forgiveness.

Example 1: $\$447,000 \times .25 = \$111,750$ (Total Potential Forgivable Non-Payroll Related Costs)

Example 2: $\$417,000 \times .25 = \$104,250$ (Total Potential Forgivable Non-Payroll Related Costs)

Step 5:



Determine if the Non-Payroll Related Costs are greater than the Total Potential Forgivable Non-Payroll Related Costs. If so, then add the Payroll Related Costs and the Total Potential Forgivable Non-Payroll Related Costs to get the Total Potentially Eligible for PPP Loan Forgiveness. If not, then use the Total PPP Spend as the Total Potentially Eligible for PPP Loan Forgiveness.

Example 1: $\$315,000 + \$111,750 = \$426,750$ (Total Potentially Eligible for PPP Loan Forgiveness)

Example 2: Non-Payroll Costs (\$102,000) < Total Potential Forgivable Non-Payroll Related Costs (\$104,250) so **\$417,000 (Total Potentially Eligible for PPP Loan Forgiveness)**

Step 6:



Divide the average number of FTEs during the covered period by the average number of FTEs during 2/15/19-6/30/19 or 1/1/20-2/29/20 (at your choice).

Average Monthly FTEs during 8-weeks following disbursement of loan: **40**

Option 1: Average Monthly FTEs during 2/15/19 – 6/30/19: **52**

Option 2: Average Monthly FTEs during 1/1/20 – 2/29/20: **48**

Option 2 is the lowest FTEE count, so divide $40/48 = .8333$

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Step 7:



Multiply the Total Potentially Eligible for PPP Loan Forgiveness by the percentage from Step 6.

Example 1: $\$426,750 \times .8333 = \$355,610.78$

Example 2: $\$417,000 \times .8333 = \$347,486.10$

Step 8:



Determine if the total compensation received by any employee during the covered period has decreased by more than 25% of the last full quarter the employee worked prior to PPP loan disbursement.

The following salaries were reduced:

	Wage Rate of Last Full Quarter Prior to PPP Loan	Wage Rate During 8-week covered period	Amount of Reduction in Excess of 25% (as prorated during the 8-week period)
Employee A	\$90,000/yr	\$60,000	\$1,153
Employee B	\$60,000/yr	\$40,000	\$769.00
		Total Reductions Over 25%	\$1,922

Note: The wage reduction in excess of 25% is prorated over the 8 week period. Employees who earned an annualized salary of greater than \$100,000 for any period in the prior year are excluded from the 25% wage reduction. For example, if an employee earned more than \$3,846.25 before taxes in any pay period during 2019, the employee's compensation is excluded from the calculations in Step 8.

Step 9:



Reduce the number from Step 7 by the percentage decrease in salary beyond a 25% reduction obtained in Step 8 to obtain Total Eligible Forgiveness.

The following salaries were reduced:

Example 1: $\$355,610.78 - \$1,922 = \$353,688.78$ Total Eligible Forgiveness

Example 2: $\$347,486.10 - \$1,922 = \$345,564.10$ Total Eligible Forgiveness

Step 10:



Pat yourself on the back, but then double-check your work. Computing PPP Loan Forgiveness is an admittedly confusing process. If you need any help or assistance on PPP Loan issues, the [SBA Loan Task Force](#) at Fisher Phillips is available to help.

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