Paycheck Protection Program Loan Forgiveness FAQ

This overview FAQ of Paycheck Protection Program (PPP) Loan Forgiveness was developed based on the presentation and Q&A for the webinar "Paycheck Protection Program Loan Forgiveness for Nonprofits" offered by Propel Nonprofits, The Minnesota Council of Nonprofits (MCN), and CliftonLarsonAllen (CLA) on July 17, 2020. A recording of the webinar is available here. This FAQ is not intended to be a comprehensive guide to PPP loan forgiveness. For more in-depth guidance and resources, we refer you to the FMA Toolbox, CLA resources, and the SBA website.

Q: What costs are eligible for loan forgiveness?

Allowable costs that are paid or incurred during the Covered Period are eligible for loan forgiveness including:

Payroll costs: Wages and salaries, bonuses (including PTO), sick pay, separation payments, housing allowances, etc.;

Benefits: Group health care benefits, which includes dental and vision care, employer contributions to Health Reimbursement Arrangement (HRA) plans, retirement contributions from the employer, employer share of state and local taxes; and

Nonpayroll costs: Rent, utilities (including gas, electric, water, telephone, transportation, and internet), interest paid on mortgage (not principal payments).

At least 60% of the PPP funds must be used for payroll and related costs.

Q: What costs are NOT eligible for forgiveness?

Payroll costs: The amount of compensation for any employee that would exceed the equivalent of $100,000 annual salary (proportionate to the time period used) and payroll for employees permanently located outside of the United States of America. Also not included are wages and salary paid that is eligible for credit under the Families First Coronavirus Response Act (FFCRA) for sick and family leave. Payments to independent contractors are not included.

Benefits: The employer share of Federal Insurance Contributions Act (FICA) taxes and federal taxes. Cost of benefit plans considered to be "income continuation" such as short- and long-term disability, life insurance, and employer contributions to Health Savings Account (HSA) plans.

Nonpayroll costs: Interest on other debts (which is allowed to be paid with PPP funds but is not forgivable) and all other costs that are not rent/utilities/mortgage interest.

Q: What is the impact on forgiveness of reductions in wages or FTEs?

The amount of the payroll costs that are eligible for forgiveness may be reduced IF you reduced wages or to employee headcount equivalent to 25% or more of wages or FTEs.

Q: What is the Safe Harbor provision regarding reductions in FTE?

- If there were no reductions in wages or FTE.
- If reductions of less than 25% were made to wages or FTEs.
- If salary/hourly wages were reduced from 2/15/2020 – 4/26/2020 but restored to 2/15/2020 level by earlier of forgiveness application date or 12/31/2020.
- If reductions were made because the organization was unable to operate at the same level of activity due to Coronavirus (COVID-19) directly or indirectly from COVID-19 requirements issued by HHS, CDC, or OSHA or State or Local orders based on these Federal agency guidelines. This provision requires certain documentation. We are waiting further guidance from the SBA on this Safe Harbor provision.

Q: What FTE reduction exceptions do not reduce loan forgiveness?

If an organization is:

Not able to rehire previous employees AND are unable to hire similarly qualified employees for unfilled positions; and

Not able to restore any reduction in hours because employee rejected the offer.

Additionally, loan forgiveness is not reduced for employees that a) were/are fired for cause, b) voluntarily resigned, or c) voluntarily requested and received reduction in hours. This includes employees who are on parental or family leave.

Q: What are the rules and calculations to determine the wage and FTE forgiveness?

This has been one of the most technical and complicated considerations for managing PPP funds for all organizations. Nonprofits with seasonal hiring or programs will have specific rules and calculations. Rather than describing all the rules and calculations we encourage you to use the tools and estimator worksheets created by FMA. See the Guidance on Estimating FTEs to Determine PPP Loan Forgiveness Amount and related worksheet and the Forgiveness Application Simulator and Estimator in the FMA PPP Toolbox.

Every organization will need to complete the calculations for wages and FTEs in order to submit the application for loan forgiveness.

Q: We've had employees leave the organization and have hired other employees. Does loan forgiveness only apply for the employees we had at the time we applied for the loan?

No, the calculation for PPP loan forgiveness is not connected to specific employees but rather to the wages paid and FTEs. See more detailed instructions and guidance on these rules and calculations referenced above.

Q: What is the time period for using PPP funds to be eligible for forgiveness?

The Covered Period for using PPP funds is either 8 weeks or 24 weeks. The applicable Covered Period begins the date that the loan is advanced to you by the lender. The Covered Period was initially 8 weeks until the PPP Flexibility Act was passed and signed. If your organization received a PPP June 5 or earlier, you can opt to use the 8-week period. Otherwise the Covered period is 24 weeks.

An Alternative Payroll Covered Period is an option if your weekly or bi-weekly payroll schedule is not aligned with the Covered Period.

Q: When can we submit our application for loan forgiveness?

The Loan Forgiveness form, either Form 3508 or 3508EZ, can be submitted to the lender who provided the PPP loan at any time after all the funds that you are requesting forgiveness for have been used.

The forms can be submitted before the end of the Covered Period. In other words, you do not have to wait to the end of the 24-week period to submit the form. Many nonprofits are interested in using PPP funds for a period that is less than 24 weeks, and we are waiting for further guidance from the SBA on the dates to be used to calculate the salary and FTE reductions if the form is submitted before the end of the 24-week Covered Period.

The forms must be submitted within 10 months of the end of the Covered Period.

Your lender will require documentation to support the information on the form.

Your lender has up to 60 days to make a determination on your application, and then the SBA has up to 90 days for its review. Because the process is only beginning, we have no experience with what the actual timelines will be with lenders or the SBA.

NOTE: The SBA has published the forms for Loan Forgiveness. These are useful to review the information and requirements, but we encourage you to check with your lender before finalizing the information or submitting the forms. Each lender may create a different format and timeline for submitting the form. Your lender will also be the best source of instruction for payroll and other documentation to be submitted with the form.

Q: Who is eligible to fill out the 3508EZ?

If there were not reductions of salaries or wages of your employees by more than 25% and the organization did not reduce the number or hours of your employees; or

If reductions in business activities were as a result of health directives related to COVID-19 and did not reduce salaries or wages of your employees by more than 25%. We are waiting for further guidance from SBA on documentation of this provision.

Q: Will our PPP loan forgiveness amount be affected by the amount of cash we have on hand in bank and investment accounts?

No, the PPP forgiveness is determined solely on the use of the funds and the rules for salaries and wages, FTEs, and required documentation.

Q: We heard that we should wait to complete the forms for loan forgiveness because the SBA may grant a blanket forgiveness for all loans under a certain size. Is this true?

As of mid-July, there is active discussion and advocacy in Congress for a blanket forgiveness of PPP loans that are under $150,000. If this would apply to your organization, it's worth staying tuned for news about this proposal and to continue to document the use of your PPP so you have it for whatever reporting you'll need to do.

Q: We have federal grants that pay for some payroll and related costs. How do these funds affect the amount of our PPP loan that can be forgiven?

For federal grants, the United States Office of Management and Budget (OMB) issued guidance that payroll costs paid with PPP loans or any other Federal CARES Act programs must not be charged to current Federal awards as it would result in the Federal government paying the same expenditures twice. In other words, don't include payroll costs already paid with federal funds in the calculation for loan forgiveness. This requirement makes the completion of the worksheets for payroll and related costs especially important. Documentation such as time sheets or time logs, and payroll and accounting records will be needed as backup for the calculations. If your organization has an annual audit, the auditors are likely to review these records as well.

Q: What about grants for state and local government or from foundations or corporations?

Whether or not an official rule has been issued, the same rules apply in terms of "double dipping." As has always been the case, no expense at a nonprofit should be paid for twice.

Our recommendation if you have grants that cover the cost of PPP eligible expenses is to (a) review the grant agreement and budget to identify potential overlap; (b) determine if the timeline or budget can be modified to avoid double dipping; (c) communicate with the grant funder about how you will manage the PPP funds in relationship to the grant; and/or (d) consider requesting a modification to the grant terms, budget, or extension of the grant period to avoid double dipping. In every situation, communicating with your funders will be important, including if you will not be submitting a reimbursement or advance request that would normally be expected.

The 24-week Covered Period is likely to afford you more options in how to manage the overlap of grant funding and PPP.

Q: How should we document which payroll costs were paid with PPP versus other grants?

The needed documentation is the same as those required for federal grants, time sheets or time logs, payroll records, allocation calculations, and accounting records.

Q: What if we are not able to use the full amount of our PPP loan on expenses that are eligible to be forgiven?

You can return unused funds to your lender at the end of the 8- or 24-week period.

Any amount that is not forgiven will be set up for repayment by the lender. The terms for PPP loan repayment are to be a loan set up with a 1% interest rate. Loans issued prior to June 5 have a maturity of 2 years, loans issued after June 5 have a maturity of 5 years. Loan payments will be deferred for six months. No collateral or personal guarantees are required.

Q: How should we reflect the PPP loan and loan forgiveness in our accounting?

When the PPP loan is received it is a loan and not income. The amount should be recorded as a liability, either a Conditional Contribution or Refundable Advance, or as a Loan Payable.

When all or a portion of the PPP loan is forgiven, that amount will be recorded either as a Contribution, or as Gain on Forgiveness of Debt. This accounting can be recorded when you receive notification from the lender that your application for loan forgiveness has been approved. You can also choose to record this when you determine you have met the conditions and are confident that your loan will be forgiven. In either case, you'll need to retain documentation of the determination.

Official accounting guidance has been released and your accounting firm or CPA can provide specific guidance for your organization about which of these two approaches is best for you.

Q: How will the PPP be reported on our 990?

We are waiting for further information from accounting firms on this question. In general, the 990 will reflect the accounting treatment described above.

Q: Is a PPP subject to a Single Audit?

No, the OMB has determined that PPP funds will not cause a Single Audit to be required.