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**CONSULTING**  
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NAVIGATING BUSINESSES INTO GROWTH

## PPP FUNDING AND FORGIVENESS GUIDE

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# Requirements For PPP Loan Forgiveness

The requirements for having your PPP loan forgiven are surprisingly lenient. It is, however, vital that you understand and follow these requirements.

Otherwise, you will not qualify for loan forgiveness.

One important thing to note is that the original PPP requirements have been modified by the passage of the Paycheck Protection Flexibility Act (enacted June 5, 2020) and the Economic Aid Act (enacted December 27, 2020). Small businesses that received PPP funding before the passage of these bills may still benefit from the resulting changes.

## Loan Proceeds Must Be Used For A Qualifying Purpose

If you receive a PPP loan, you are limited in how you can use your funds. We'll go into the specifics in the next section. For now, just understand that this loan is primarily meant to help you pay and retain your employees if your business has been affected by the coronavirus pandemic.

## Funds Must Be Spent Within 24 Weeks

Your loan is calculated to provide you with eight weeks of capital to pay employees and cover other qualified costs. To be forgiven, you must spend your loan proceeds within 24 weeks of disbursement. What if you can't spend all of your funds during this period? You can still claim forgiveness on any portion that meets all other requirements. However, any funds that aren't spent during the 24-week period will not be forgiven.



Borrowers that received funding before the passage of the Paycheck Protection Flexibility Act on June 5, 2020, can stick with the original eight-week period or extend the covered period an additional 16 weeks.

## Incurring Costs Can Be Included, Too

In addition to costs that have already been paid, expenses incurred during the 24-week period are also eligible for loan forgiveness.

For example, let's say that you'll pay your employees on March 13 for work completed March 1 through March 7. Your 24-week deadline falls on March 7. Even though this payday will fall after the 24-week period, payroll costs were incurred and therefore are eligible for forgiveness.

## You Must Maintain Your Full-Time Staff

Because this loan should be used to help you pay your staff, it makes sense that one requirement for loan forgiveness is that you must maintain the headcount of your full-time employees. If you had five employees when applying for your loan, you should continue to have at least five full-time employees on your payroll.

Now, what happens if you had to lay off employees in between applying for your loan and receiving the funds? You can use the 24-week period to rehire and bring your workforce back up to pre-pandemic levels. You will be required to pay back all or some of your loan amount if you fail to maintain your staff based on these guidelines.

There are a few exceptions to this rule. Employees that turned down a good faith offer to return to their jobs with the same rate of pay and hours can be



excluded from forgiveness calculations. Businesses that could not find qualified employees or have not restored operations due to coronavirus-related restrictions may also qualify for full or partial forgiveness.

## You Must Maintain Your Payroll

Your payroll costs must remain the same as they were when you applied for funding. If you decrease salaries or wages, you may be required to pay back a portion of your loan. To be eligible for loan forgiveness, you can't reduce the salary of any full-time employee earning less than \$100,000/year by more than 25%.

If you had to cut salaries or wages due to financial challenges caused by the coronavirus, you have 24 weeks to restore these salaries and wages.

## Qualified Expenses For PPP Loans

PPP loans can only be used for certain expenses. If you use your loan for anything other than these expenses, you will not qualify for full loan forgiveness. So how exactly can you use your funds? What are the PPP spending requirements?

### **PPP eligible expenses include:**

#### Payroll Costs

Your PPP loan funds can be used to cover payroll expenses so that you can keep your business staffed. You **must** use **at least 60%** of your loan to cover payroll costs to qualify for forgiveness. The remaining 40% can be used on mortgage interest, utilities, rent, and other expenses that we'll detail in this article. If you don't meet this 60% threshold, you may still be eligible for partial



forgiveness. **In order to ensure forgiveness, we recommend you purchase our [Quickbooks set up services](#). These services can be paid with your PPP funds (a part of your 40%) and is only a \$650 (plus tax) investment, which is also tax deductible as a business expense.**

Various payroll costs are qualified expenses, including:

- **Salaries, Wages, Tips & Commissions:** Capped at \$100,000/annually per employee.
- **Employee Benefits:** Includes costs associated with retirement plans, group health insurance, separation or dismissal, vacation time, sick and medical leave, and parental and family leave.
- **State and local taxes on compensation**

If you're a **sole proprietor or independent contractor**, self-employment wages, salaries, and commissions not exceeding \$100,000 annually qualify as payroll costs.

These costs will need to be proven by submitting payroll documentation. For small businesses, acceptable documentation includes:

- **Tax Forms:** Form 941 quarterly tax filings and Form 944 annual tax filings
- **Payroll Registers:** Should be from the last 12 months
- **Business Bank Statements:** Should be from the last 12 months

If you're an independent contractor or sole proprietor, documentation proving payroll costs include:

- **Tax Forms:** 1040 Schedule C and 1099s
- **Income and expense reports**



Other documentation may be acceptable — ask your chosen lender for additional details about how they're handling PPP allowable expenses.

## Mortgage Interest

Your PPP loan can be used to pay mortgage interest. Mortgage interest obligations must have been incurred before February 15, 2020, to be a qualified expense.

Make sure to have documentation showing the mortgage interest that was paid. Acceptable documentation includes receipts, bank statements, account statements, and canceled checks.

## Rent

If you rent your commercial space, you can use a portion of your funds to cover rent over the next two months. To be considered a qualified expense, a lease agreement for the property must have been in effect before February 15, 2020.

Again, you need to keep all documentation proving your funds were spent toward this qualified expense. So don't forget to hang onto your account statements, receipts, bank statements, and canceled checks.

## Utilities

Are you struggling to keep the lights on at your business? Good news — you can use a portion of your loan to cover your utilities. The SBA defines utilities as “electricity, gas, water, transportation, telephone or internet access, for which service began before February 15, 2020.”



You'll want to have documentation proving that these utilities were paid by keeping account statements, bank statements, canceled checks, and receipts.

## **Loan Forgiveness For PPP As Expanded By The Paycheck Protection Flexibility Act & The Economic Aid Act**

The Paycheck Protection Flexibility Act (enacted June 5, 2020) and the Economic Aid Act (enacted December 27, 2020) expanded the list of qualified expenditures on which you can use the 40% of your PPP loan that isn't dedicated to payroll.

### **Software**

The pandemic shifted a lot of business processes online, not only for companies that are now doing remote work but also businesses that have had to start taking and processing orders online that had previously been done in person. Moving processes into the digital space comes with costs.

The terms of the Economic Aid Act allow you to spend the non-payroll part of your PPP on software expenses.

### **Property Damage Related To Civil Unrest**

During periods of political unrest, having a brick-and-mortar location can turn into a liability. Regardless of where your political leanings lie, if you incurred or incur damages related to riots and demonstrations, you can now spend your non-payroll PPP funds on repairing your property so long as said damages were not covered by insurance.

### **Necessary Supplier Costs**



Businesses will have a little more flexibility when it comes to spending their non-payroll expenses. The new bill recognizes the importance of restocking critical supplies to keep your business running. As with the other expenses, you'll want to keep records of your expenditures here.

## COVID-Related Protective Measures

If you're running an in-person business, you've no doubt had some additional expenses pop up, namely the need to keep your employees COVID-compliant with masking and/or personal protective equipment. You may have also erected barriers to reduce the risks of droplet transmissions between customers and staff.

All of these measures can be costly, but you can spend your non-payroll funds on them and still qualify for loan forgiveness.

## Additional Documentation For Second Draw Forgiveness

Businesses seeking a second PPP loan (known as a **second draw** loan) will need to prove, via documentation, that they've suffered the requisite 25% loss of income in 2020 relative to 2019. You do this by showing gross receipts from one quarter in 2020 along with receipts from the corresponding quarter in 2019, regardless of whether your loan qualifies for the simplified forgiveness application.

## Deadline To Apply For PPP Loan Forgiveness

There are several timelines to keep in mind if you plan to apply for PPP loan forgiveness. You have until your loan's maturity date (in other words, the date





the final payment is due) to submit a PPP loan forgiveness application. If you received your loan funds prior to June 5, 2020, this date will be two years after the origination of the loan. If you received your funds after June 5, you have five years from the origination date to apply for forgiveness.

But there's a catch. If you don't apply for loan forgiveness within 10 months of the last date of your covered period, your loan is no longer deferred. That means you will have to make payments on the loan. For example, if your covered period ended on October 30, 2020, you have until August 30, 2021, to apply for loan forgiveness, or else you will need to begin making monthly loan payments.

While you do have time to apply for loan forgiveness, it's best to get started as early as possible to allow yourself time to gather information and documentation. If you qualify for full forgiveness, submitting your application early also helps prevent you from making any loan payments.



## Can Contractors & Self-Employed Apply For PPP Loans?

The Paycheck Protection Program's premise is simple: The SBA is backing loans to borrowers that need payroll assistance due to the economic hardships from the coronavirus. Previously, only S/C-corporations, tribal businesses, and businesses with up to 500 employees could apply for loans when the program first launched last April. Now, sole proprietors, independent contractors, and self-employed individuals can apply as well.

The terms for the loans are as follows: **The PPP loans are designed to cover payroll costs, including benefits, for individual salaries up to \$100,000; rent; utilities from buildings rented before February 15th, 2020; interest on mortgage obligations; business-related software; necessary supplier costs; COVID-related worker protection measures; and property damage incurred from civil unrest.**

PPP loans for the self-employed and contractors can be used to give yourself a salary (wages, commissions, tips). Qualified borrowers can apply for 2.5 times their average payroll cost for 12 months. This amount is capped at \$100,000 on an annualized basis for each employee.

One of the best parts of these PPP loans is that **they are forgivable** if you use the loan on operational costs (payroll first) during the 24 weeks following loan disbursement. (That's assuming you follow the loan forgiveness stipulations outlined in the Paycheck Protection Flexibility Act, which includes a mandate that 60% of the loan must be used for payroll alone.)



PPP loans have a 1% interest rate, a loan term of up to five years with no prepayment penalty, and a six-month payment deferral. (Side note: If your business hasn't been operational for a full year, the government provides alternative ways to measure average payroll.)

## PPP Requirements For Self-Employed People

PPP loans are designed to reach as many small business owners as possible, including the self-employed. While the terms are broad, the first qualification is that you must demonstrate a need based on the current COVID-19 world. Be sure to specify that you are seeking aid related to the COVID-19/coronavirus disaster.

For those of you who received a first draw PPP loan in 2020, the requirements are more precise: You'll need gross receipts from any calendar quarter in 2020 that show at least a **25% reduction in gross revenue from the same quarter in 2019** to qualify for a second draw PPP loan.

If you collect 1099s or operate in the gig economy, you are included in the January 11th, 2021, loan rollout. Also included are people who have 1065s or 1120s with no employees.