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**PPP Loan Forgiveness Process Explained**

Lenders are to submit the [Loan Forgiveness Application](https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf) (SBA Form 3508 or lender equivalent) to the lender (or the servicing lender), who will review the application and issue a decision to the SBA within 60 days of receiving the complete application. If borrowers previously received funds under the Economic Injury Disaster Loan (EIDL) advance program, that amount will be deducted from the forgiveness amount.

The SBA will review the application and may also review the borrower's eligibility (including certifications) and loan amount to determine if all or a portion of the loan is ineligible for forgiveness. (See below SBA Loan Review Procedures and Related Borrower and Lender Responsibilities.) The lender is responsible for notifying the borrower of the forgiveness amount. Any unforgiven amount must be repaid on or before the two-year maturity of the loan.

***Payroll Costs Eligible for Loan Forgiveness***

Payroll costs paid **or** incurred during the eight-week (56 days) applicable period are eligible for forgiveness. For payroll costs, a borrower may seek forgiveness for the eight-week (56 days) period beginning on either:

* the date the borrower received the PPP loan proceeds (i.e., the covered period); or
* if bi-weekly or more frequent payroll periods, the first day of the first payroll cycle in the covered period (the alternative payroll covered period).

Borrowers should review the [Loan Forgiveness Application](https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf) (SBA Form 3508 or lender equivalent) for required applications of the alternative payroll covered period if they have chosen that option.

Payroll costs are "paid" on the day that paychecks are distributed or ACH credit transactions are originated. Payroll costs are "incurred" on the day the employee's pay is earned (i.e., on the day the employee worked). To be eligible for forgiveness, payroll costs incurred during the borrower's last pay period of the covered period (or alternative payroll covered period) must be paid on or before the next regular payroll date.

Payroll costs that were both paid and incurred during the covered period (or alternative payroll covered period) may only be counted once. For furloughed employees, payroll costs are incurred based on the schedule established by the borrower (typically, each day that the employee would have performed work).

***Salary, Wages or Commission Payments to Furloughed Employees; Bonuses; Hazard Pay***

Payments of salary, wages or commissions to furloughed employees during the covered period (or alternative payroll covered period) are eligible for forgiveness so long as such payments do not exceed $100,000 on annualized basis (i.e., $15,385 during the applicable period). Hazard pay and bonuses are eligible for loan forgiveness if an employee's total compensation does not exceed $100,000 on an annualized basis (i.e., $15,385 during the applicable period).

***Caps on the Amount of Loan Forgiveness Available for Owner-Employees and Self-Employed Individuals' Own Payroll Compensation***

For owner employees and self-employed individuals, the payroll compensation cap on loan forgiveness amounts is the lesser of 8/52nds of their 2019 compensation or $15,385 per individual in total across all businesses. (See 85 FR 21747, 21750.)

* 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.

***Non-payroll Costs Eligible for Loan Forgiveness***

A non-payroll cost is eligible for forgiveness if it was paid during the covered period or 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. The incurred amount is prorated through the end of the covered period.

Advance payments of interest on mortgage obligations are not eligible for loan forgiveness. Principal on mortgage obligations is not eligible for forgiveness.

**Reductions to Loan Forgiveness Amount**

(See the [Loan Forgiveness Application](https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf) [SBA Form 3508 or lender equivalent] and its instructions for statutory forgiveness reduction formulas and calculations.)

***Exemption for Employees Who Refuse to Come Back to Work***

Employees whom a borrower offered to rehire are generally exempt from the loan forgiveness reduction calculation if:

* the borrower made a good faith, written offer to rehire 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 maintains records documenting the offer and its rejection;
* 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.

***Effect of a Reduction in Full-Time Equivalent (FTE) Employees on the Forgiveness Amount***

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 should select a reference period of one of the following:

* 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.

The borrower must calculate the average FTE employees during the selected reference period and the covered period (or the alternative payroll covered period). The borrower must then divide the average FTE employees during the covered period (or the alternative payroll covered period) by the average FTE employees during the selected reference period, resulting in the reduction quotient. The total eligible expenses available for forgiveness are reduced proportionally by the reduction quotient.

If a borrower eliminates any reductions in FTE employees occurring during February 15, 2020 and April 26, 2020 by June 30, 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.

Full-time equivalent employee means an employee who works 40 hours or more, on average, each week. Hours of employees who work less than 40 hours are calculated as proportions of a single full-time equivalent employee and aggregated. To calculate the number of full-time equivalent (FTE) employees, divide the average number of hours paid for each employee per week by 40, capping this at 1.0 (an employee paid for 48 hours per week would 1.0 FTE).

For employees who were paid for less than 40 hours per week, borrowers may choose to calculate the FTE by either:

* calculating the average number of hours a part-time employee was paid per week during the covered period (an employee would be considered to be 0.75 FTE if paid for 30 hours per week on average and 0.25 FTE if paid for 10 hours per week on average); **or**
* electing to use 0.5 FTE for each part-time employee.

A borrower may select only one method and must apply that method consistently to the covered period (or the alternative payroll covered period) and the selected reference period. The borrower should then aggregate the total of FTE employees for both the selected reference period and the covered period (or the alternative payroll covered period).

***No Penalty for an Employee that is Fired for Cause, Voluntarily Resigns or Voluntarily Requests a Schedule Reduction***

There is no penalty for employees who are fired for cause, voluntarily resign or voluntarily request a schedule reduction. Such employees are exempted from the calculation of the FTE reduction penalty. The borrower may count such employee at the same FTE level as before the FTE reduction event when calculating the FTE employee reduction penalty. Borrowers must maintain records demonstrating that each such employee was fired for cause, voluntarily resigned or voluntarily requested a schedule reduction, providing such documentation upon request.

***Effect of a Reduction in Employees' Salary/Wages on the Loan Forgiveness Amount***

A reduction in certain employees' salary/wages in excess of 25 percent will result in a reduction in the loan forgiveness amount. This rule applies to 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/wage reductions that are in excess of 25 percent of base salary/wages between January 1, 2020 and March 31, 2020 subject to certain exceptions. The reduction is applied on a per employee basis, not in the aggregate.

If a borrower eliminates wage/salary reductions made during February 15, 2020 and April 26, 2020 by June 30, 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.

To avoid a double penalty, the salary/wage reduction applies only to the portion of the decline in employee salary/wages that is **not** attributable to the FTE reduction.

***Documentation Required for Forgiveness of PPP loans***

See the [Loan Forgiveness Application](https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf) (SBA Form 3508 or lender equivalent) for details on

* documentation to be submitted with an application
* documentation required to be maintained and available upon request
* documentation which may voluntarily be submitted with an application

**SBA Loan Review Procedures and Related Borrower/Lender Responsibilities**

The SBA may review loans of any size at its discretion. Borrowers must retain PPP documentation for six years after the date the loan is forgiven or repaid in full. Borrowers will have an opportunity to respond to the SBA's questions under review.

The SBA review may include the following:

* borrower eligibility (including certifications)
* loan amount and use of proceeds
* loan forgiveness amount

If a borrower is ineligible for a PPP loan, the SBA will direct the lender to deny the loan forgiveness application. If the SBA determines that the borrower is ineligible for the loan amount or loan forgiveness amount, the SBA will direct the lender to deny the loan forgiveness application in whole or in part, as appropriate. The SBA may also seek repayment of the outstanding PPP loan balance or pursue other available remedies.

Borrowers may appeal a SBA decision of PPP loan ineligibility or loan forgiveness ineligibility. The SBA intends to issue a separate interim final rule addressing this process.

Lenders are responsible for reviewing the loan forgiveness applications and must confirm:

* receipt of the borrower's certifications contained in the application
* receipt of the documentation submitted to verify payroll and non-payroll costs
* the borrower's calculations, including the dollar amount of the:
  + cash compensation, non-cash compensation and compensation to owners claimed on PPP Schedule A;
  + business mortgage interest payments, business rent or lease payments, and business utility payments claimed on the PPP loan forgiveness calculation form.
* the borrower properly attributed at least 75 percent of the forgiven amount to eligible payroll costs