PAYROLL PROTECTION PROGRAM UPDATE

On Monday, August 25 the Small Business Administration released new guidance on Paycheck Protection Program (PPP) forgiveness. Here are the key pieces of information:

- C and S Corp owners with less than 5% ownership are not subject to the owner compensation limitations.
- Amounts attributable to the operations of a tenant or sub-tenant or in the context of a home-based business are not qualified expenses for forgiveness.
  - Examples:
    - Borrower rents space for $10k a month and sub-leases portion for $2,500 per month. Borrower’s qualified expense is $7,500 per month.
    - Borrower who has a mortgage on the building and rents out part of the building may only use a pro-rata portion of the mortgage interest based on the fair market value of the space they utilize themselves.
    - Borrower must pro-rate rent and utilities if space is shared with other businesses.
- Home office expenses are limited to amount deductible on 2019 tax return or if a new business, the expected amount to be deducted on 2020 returns.
- Rent payments to related parties are eligible but are limited to the mortgage interest attributable to the space being rented during the covered period if the lease and the mortgage were both entered into before February 15, 2020.
  - Any ownership in common between the two businesses causes them to be related party for this purpose.
  - Borrower must provide documentation to substantiate mortgage interest payments.
  - Mortgage interest payments to a related party are not eligible
  - Purpose of PPP was to help cover certain non-payroll obligations to third parties, not to business owners that occur because of how the business is structured.

Please contact your Somerset advisor at 317.472.2200 or info@somersetcpas.com with any questions. As always, we are here and ready to help.