

required to make any payments until the forgiveness amount is remitted to the lender by SBA. If the loan is fully forgiven, the borrower is not responsible for any payments. If only a portion of the loan is forgiven, or if the forgiveness application is denied, any remaining balance due on the loan must be repaid by the borrower on or before the maturity date of the loan. Interest accrues during the time between the disbursement of the loan and SBA remittance of the forgiveness amount. The borrower is responsible for paying the accrued interest on any amount of the loan that is not forgiven. The lender is responsible for notifying the borrower of remittance by SBA of the loan forgiveness amount (or that SBA determined that no amount of the loan is eligible for forgiveness) and the date on which the borrower's first payment is due, if applicable.

- 4. Question:** The PPP loan forgiveness application forms (3508, 3508EZ, and 3508S) display an expiration date of 10/31/2020 in the upper-right corner. Is October 31, 2020 the deadline for borrowers to apply for forgiveness?

Answer: No. Borrowers may submit a loan forgiveness application any time before the maturity date of the loan, which is either two or five years from loan origination.

However, if a borrower does not apply for loan forgiveness within 10 months after the last day of the borrower's loan forgiveness covered period, loan payments are no longer deferred and the borrower must begin making payments on the loan. For example, a borrower whose covered period ends on October 30, 2020 has until August 30, 2021 to apply for forgiveness before loan repayment begins.

The expiration date in the upper-right corner of the posted PPP loan forgiveness application forms is displayed for purposes of SBA's compliance with the Paperwork Reduction Act, and reflects the temporary expiration date for approved use of the forms. This date will be extended, and when approved, the same forms with the new expiration date will be posted.¹

Loan Forgiveness Payroll Costs FAQs

- 1. Question:** Are payroll costs that were incurred during the Covered Period² or the Alternative Payroll Covered Period³ but paid after the Covered Period or the Alternative Payroll Covered Period eligible for loan forgiveness?

¹ All questions and answers published August 4, 2020 unless specified otherwise. General Loan Forgiveness FAQ 4 published October 13, 2020.

² The Covered Period is either (1) the 24-week (168-day) period beginning on the PPP loan disbursement date, or (2) if the borrower received its PPP loan before June 5, 2020, the borrower may elect to use an eight-week (56-day) Covered Period. For example, if the borrower is using a 24-week Covered Period and received its PPP loan proceeds on Monday, April 20, the first day of the Covered Period is April 20 and the last day of the Covered Period is Sunday, October 4. In no event may the Covered Period extend beyond December 31, 2020.

³ Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the 24-week (168-day) period (or for loans received before June 5, 2020 at the election of the borrower, the eight-week (56-day) period) that begins on the first day of their first pay period following their PPP loan disbursement date (i.e., the "Alternative Covered Period"). For example, if the borrower is using a 24-week Alternative Payroll Covered Period and received its PPP loan proceeds on Monday, April 20, and the first day of its first pay period

Self-employed Schedule C (or Schedule F) filers: The compensation of self-employed Schedule C (or Schedule F) individuals, including sole proprietors, self-employed individuals, and independent contractors, that is eligible for loan forgiveness is limited to 2.5/12 of 2019 net profit as reported on IRS Form 1040 Schedule C line 31 (or 2.5/12 of 2019 net farm profit, as reported on IRS Form 1040 Schedule F line 34) (or for new businesses, the estimated 2020 Schedule C (or Schedule F) referenced in question 10 of “Paycheck Protection Program: How to Calculate Maximum Loan Amounts – By Business Type”⁴). Separate payments for health insurance, retirement, or state or local taxes are not eligible for additional loan forgiveness; health insurance and retirement expenses are paid out of their net self-employment income. If the borrower did not submit its 2019 IRS Form 1040 Schedule C (or F) to the Lender when the borrower initially applied for the loan, it must be included with the borrower’s forgiveness application.

General Partners: The compensation of general partners that is eligible for loan forgiveness is limited to 2.5/12 of their 2019 net earnings from self-employment that is subject to self-employment tax, which is computed from 2019 IRS Form 1065 Schedule K-1 box 14a (reduced by box 12 section 179 expense deduction, unreimbursed partnership expenses deducted on their IRS Form 1040 Schedule SE, and depletion claimed on oil and gas properties) multiplied by 0.9235.⁵ Compensation is only eligible for loan forgiveness if the payments to partners are made during the Covered Period or Alternative Payroll Covered Period. Separate payments for health insurance, retirement, or state or local taxes are not eligible for additional loan forgiveness. If the partnership did not submit its 2019 IRS Form 1065 K-1s when initially applying for the loan, it must be included with the partnership’s forgiveness application.

LLC owners: LLC owners must follow the instructions that apply to how their business was organized for tax filing purposes for tax year 2019, or if a new business, the expected tax filing situation for 2020.

Loan Forgiveness Nonpayroll Costs FAQs

1. **Question:** Are nonpayroll costs incurred prior to the Covered Period, but paid during the Covered Period, eligible for loan forgiveness?

Answer: Yes, eligible business mortgage interest costs, eligible business rent or lease costs, and eligible business utility costs incurred prior to the Covered Period and paid during the Covered Period are eligible for loan forgiveness.

Example: A borrower’s 24-week Covered Period runs from April 20 through October 4. On May 4, the borrower receives its electricity bill for April. The borrower pays its April electricity bill on May 8. Although a portion of the electricity costs were incurred

⁴ https://www.sba.gov/sites/default/files/2020-06/How-to-Calculate-Loan-Amounts-508_1.pdf.

⁵ This treatment follows the computation of self-employment tax from IRS Form 1040 Schedule SE Section A line 4 and removes the “employer” share of self-employment tax, consistent with how payroll costs for employees in the partnership are determined.

before the Covered Period, these electricity costs are eligible for loan forgiveness because they were paid during the Covered Period.

- Question:** Are nonpayroll costs incurred during the Covered Period, but paid after the Covered Period, eligible for loan forgiveness?

Answer: Nonpayroll costs are eligible for loan forgiveness if they were 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.

Example: A borrower's 24-week Covered Period runs from April 20 through October 4. On October 6, the borrower receives its electricity bill for September. The borrower pays its September electricity bill on October 16. These electricity costs are eligible for loan forgiveness because they were incurred during the Covered Period and paid on or before the next regular billing date (November 6).

- Question:** If a borrower elects to use the Alternative Payroll Covered Period for payroll costs, does the Alternative Payroll Covered Period apply to nonpayroll costs?

Answer: No. The Alternative Payroll Covered Period applies only to payroll costs, not to nonpayroll costs. The Covered Period always starts on the date the lender makes a disbursement of the PPP loan. Nonpayroll costs must be paid or incurred during the Covered Period to be eligible for loan forgiveness. For payroll costs only, the borrower may elect to use the Alternative Payroll Covered Period to align with its biweekly or more frequent payroll schedule.

- Question:** Is interest on unsecured credit eligible for loan forgiveness?

Answer: No. Payments of interest on business mortgages on real or personal property (such as an auto loan) are eligible for loan forgiveness. Interest on unsecured credit is not eligible for loan forgiveness because the loan is not secured by real or personal property. Although interest on unsecured credit incurred before February 15, 2020 is a permissible use of PPP loan proceeds, this expense is not eligible for forgiveness.

- Question:** Are payments made on recently renewed leases or interest payments on refinanced mortgage loans eligible for loan forgiveness if the original lease or mortgage existed prior to February 15, 2020?

Answer: Yes. If a lease that existed prior to February 15, 2020 expires on or after February 15, 2020 and is renewed, the lease payments made pursuant to the renewed lease during the Covered Period are eligible for loan forgiveness. Similarly, if a mortgage loan on real or personal property that existed prior to February 15, 2020 is refinanced on or after February 15, 2020, the interest payments on the refinanced mortgage loan during the Covered Period are eligible for loan forgiveness.

Example: A borrower entered into a five-year lease for its retail space in March 2015. The lease was renewed in March 2020. For purposes of determining forgiveness of the

borrower's PPP loan, the March 2020 renewed lease is deemed to be an extension of the original lease, which was in force before February 15, 2020. As a result, the lease payments made under the renewed lease during the Covered Period are eligible for loan forgiveness.

- 6. Question:** Covered utility payments, which are eligible for forgiveness, include a "payment for a service for the distribution of . . . transportation" under the CARES Act. What expenses does this category include?

Answer: A service for the distribution of transportation refers to transportation utility fees assessed by state and local governments. Payment of these fees by the borrower is eligible for loan forgiveness.⁶

- 7. Question:** Are electricity supply charges eligible for loan forgiveness if they are charged separately from electricity distribution charges?

Answer: Yes. The entire electricity bill payment is eligible for loan forgiveness (even if charges are invoiced separately), including supply charges, distribution charges, and other charges such as gross receipts taxes.

Loan Forgiveness Reductions FAQs

- 1. Question:** Will a borrower be subject to a reduction to its forgiveness amount due to a reduction in FTE employees during the Covered Period if the borrower offered to rehire one or more laid off employees but the employees declined?

Answer: In calculating its loan forgiveness amount, a borrower may exclude any reduction in FTE employees if the borrower is able to document in good faith the following: (1) an inability to rehire individuals who were employees of the borrower on February 15, 2020 and (2) an inability to hire similarly qualified individuals for unfilled positions on or before December 31, 2020. Borrowers are required to inform the applicable state unemployment insurance office of any employee's rejected rehire offer within 30 days of the employee's rejection of the offer. The documents that borrowers should maintain to show compliance with this exemption include the written offer to rehire an individual, a written record of the offer's rejection, and a written record of efforts to hire a similarly qualified individual.

- 2. Question:** If a seasonal employer elects to use a 12-week period between May 1, 2019 and September 15, 2019 to calculate its maximum PPP loan amount, what period in 2019 should be used as the reference period for calculating any reductions in the loan forgiveness amount?

Answer: A seasonal employer that elects to use a 12-week period between May 1, 2019 and September 15, 2019 to calculate its maximum PPP loan amount must use the same

⁶ For more information on transportation utility fees, see https://www.fhwa.dot.gov/ipd/value_capture/defined/transportation_utility_fees.aspx.

12-week period as the reference period for calculation of any reduction in the amount of loan forgiveness.

3. **Question:** When calculating the FTE Reduction Exceptions in Table 1 of the PPP Schedule A Worksheet on the Loan Forgiveness Application (SBA Form 3508 or lender equivalent), do borrowers include employees who made more than \$100,000 in 2019 (those listed in Table 2 of the PPP Schedule A Worksheet)?

Answer: Yes. The FTE Reduction Exceptions apply to all employees, not just those who would be listed in Table 1 of the Loan Forgiveness Application (SBA Form 3508 or lender equivalent). Borrowers should therefore include employees who made more than \$100,000 in the FTE Reduction Exception line in Table 1 of the PPP Schedule A Worksheet.

4. **Question:** How do borrowers calculate the reduction in their loan forgiveness amount arising from reductions in employee salary or hourly wage?

Answer: Certain pay reductions during the Covered Period or the Alternative Payroll Covered Period may reduce the amount of loan forgiveness a borrower will receive. If the salary or hourly wage of a covered employee⁷ is reduced by more than 25% during the Covered Period or the Alternative Payroll Covered Period, the portion in excess of 25% reduces the eligible forgiveness amount unless the borrower satisfies the Salary/Hourly Wage Reduction Safe Harbor (as described in the Loan Forgiveness Application (SBA Form 3508 or lender equivalent)). The examples below assume that each employee is a “covered employee.”

Example 1: A borrower received its PPP loan before June 5, 2020 and elected to use an eight-week covered period. Its full-time salaried employee’s pay was reduced during the Covered Period from \$52,000 per year to \$36,400 per year on April 23, 2020 and not restored by December 31, 2020. The employee continued to work on a full-time basis with a full-time equivalency (FTE) of 1.0. The borrower should refer to the “Salary/Hourly Wage Reduction” section under the “Instructions for PPP Schedule A Worksheet” in the PPP Loan Forgiveness Application Instructions. In Step 1, the borrower enters the figures in 1.a, 1.b, and 1.c, and because annual salary was reduced by more than 25%, the borrower proceeds to Step 2. Under Step 2, because the salary reduction was not remedied by December 31, 2020, the Salary/Hourly Wage Reduction Safe Harbor is not met, and the borrower is required to proceed to Step 3. Under Step 3.a., \$39,000 (75% of \$52,000) is the minimum salary that must be maintained to avoid a penalty. Salary was reduced to \$36,400, and the excess reduction of \$2,600 is entered in Step 3.b. Because this employee is salaried, in Step 3.e., the borrower would multiply the excess reduction of \$2,600 by 8 (if it had instead selected a 24-week Covered Period, it would multiply by 24) and divide by 52 to arrive at a loan

⁷ A “covered employee” is an individual who: (1) was employed by the borrower at any point during the Covered Period or Alternative Payroll Covered Period and whose principal place of residence is in the United States; and (2) received compensation from the borrower at an annualized rate less than or equal to \$100,000 for all pay periods in 2019 or was not employed by the borrower at any point in 2019.

forgiveness reduction amount of \$400. The borrower would enter on the PPP Schedule A Worksheet, Table 1, \$400 as the salary/hourly wage reduction in the column above box 3 for that employee.

Example 2: A borrower received its PPP loan before June 5, 2020 and elected to use a 24-week Covered Period. An hourly employee's hourly wage was reduced from \$20 per hour to \$15 per hour during the Covered Period. The employee worked 10 hours per week between January 1, 2020 and March 31, 2020. The borrower should refer to the "Salary/Hourly Wage Reduction" section under the "Instructions for PPP Schedule A Worksheet" in the PPP Loan Forgiveness Application Instructions. Because the employee's hourly wage was reduced by exactly 25% (from \$20 per hour to \$15 per hour), the wage reduction does not reduce the eligible forgiveness amount. The amount on line 1.c would be 0.75 or more, so the borrower would enter \$0 in the Salary/Hourly Wage Reduction column for that employee on the PPP Schedule A Worksheet, Table 1.

If the same employee's hourly wage had been reduced to \$14 per hour, the reduction would be more than 25%, and the borrower would proceed to Step 2. If that reduction were not remedied as of December 31, 2020, the borrower would proceed to Step 3. This reduction in hourly wage in excess of 25% is \$1 per hour. In Step 3, the borrower would multiply \$1 per hour by 10 hours per week to determine the weekly salary reduction. The borrower would then multiply the weekly salary reduction by 24 (because the borrower is using a 24-week Covered Period). The borrower would enter \$240 in the Salary/Hourly Wage Reduction column for that employee on the PPP Schedule A Worksheet, Table 1. If the borrower applies for forgiveness before the end of the 24-week Covered Period, it must account for the salary reduction (the excess reduction over 25%, or \$240) for the full 24-week Covered Period.

Example 3: An employee earned a wage of \$20 per hour between January 1, 2020 and March 31, 2020 and worked 40 hours per week. During the Covered Period, the employee's wage was not changed, but his or her hours were reduced to 25 hours per week. In this case, the salary/hourly wage reduction for that employee is zero, because the hourly wage was unchanged. As a result, the borrower would enter \$0 in the Salary/Hourly Wage Reduction column for that employee on the PPP Schedule A Worksheet, Table 1. The employee's reduction in hours would be taken into account in the borrower's calculation of its FTE during the Covered Period, which is calculated separately and may result in a reduction of the borrower's loan forgiveness amount.

5. **Question:** For purposes of calculating the loan forgiveness reduction required for salary/hourly wage reductions in excess of 25% for certain employees, are all forms of compensation included or only salaries and wages?

Answer: For purposes of calculating reductions in the loan forgiveness amount, the borrower should only take into account decreases in salaries or wages.

Economic Injury Disaster Loan (EIDL) FAQs

1. **Question:** SBA will deduct the amount of any Economic Injury Disaster Loan (EIDL) advance received by a PPP borrower from the forgiveness amount remitted to the lender. How will a lender know the amount of the EIDL advance that will be automatically deducted by SBA?

Answer: If a borrower received an EIDL advance, SBA is required to reduce the borrower's loan forgiveness amount by the amount of the EIDL advance. SBA will deduct the amount of the EIDL advance from the forgiveness amount remitted by SBA to the lender. The lender will be able to confirm the amount of the EIDL advance that will be automatically deducted by SBA from the forgiveness payment by reviewing the borrower's EIDL advance information in the PPP Forgiveness Platform.

2. **Question:** How should a lender handle any remaining balance due on a PPP loan after SBA remits the forgiveness amount to the lender?

Answer: If a PPP loan is not forgiven in full (including if there has been a reduction in the forgiveness amount for an EIDL advance), any remaining balance due on the PPP loan must be repaid by the borrower. The lender is responsible for notifying the borrower of the loan forgiveness amount remitted by SBA and the date on which the borrower's first loan payment is due. The lender must continue to service the loan. The borrower must repay the remaining loan balance by the maturity date of the PPP loan (either two or five years). If a borrower is determined to have been ineligible for a PPP loan for any reason, SBA may seek repayment of the outstanding PPP loan balance or pursue other available remedies.

3. **Question:** What should a lender do if a borrower received an EIDL advance in excess of the amount of its PPP loan?

Answer: A borrower that received an EIDL advance in excess of the amount of its PPP loan will not receive any forgiveness on the PPP loan, because the amount of an EIDL advance is deducted from the PPP loan forgiveness amount. The lender is responsible for notifying the borrower of the date on which the borrower's first loan payment is due. The lender must continue to service the loan. The borrower must repay the remaining loan balance by the maturity date of the PPP loan (either two or five years). If a borrower is determined to have been ineligible for a PPP loan for any reason, SBA may seek repayment of the outstanding PPP loan balance or pursue other available remedies.⁸

⁸ All questions and answers published August 4, 2020 unless specified otherwise. EIDL FAQs 1 – 3 published August 11, 2020.