

So, you have a PPP loan. What is next?

What you need to know to manage your loan and to obtain forgiveness.

### The Basics

If you have just obtained a loan from WestStar under the Small Business Administration's (SBA) Paycheck Protection Program (PPP), there are some things you need to know. First, you need to decide if you want the loan forgiven. Second, if you decide all or a part of the loan cannot be forgiven, you will need to plan to make principal and interest payments to pay off the loan per your loan agreement.

You will be able to let us know in week seven of your loan if you want to apply for forgiveness and make that application for forgiveness in week eight. A link will be provided to you prior to the end of the eight-week forgiveness period currently mandated by the SBA.

### What are allowable uses of the funds?

While you can use the proceeds of the PPP loan for a wide range of expenses, if you want to obtain forgiveness, you are restricted for what you can use your PPP loan. Remember, the loan amount was based on 2.5 times your average monthly payroll from 2019. However, you can USE these funds for the following purposes and still get all or a portion of your loan forgiven:

- ☐ **Payroll Costs**  
Salaries, wages, commissions, cash tips or equivalent, vacation, and sick pay (*up to \$100,000 annualized pay per employee*)
  - Group health insurance
  - Retirement contributions
  - State/local taxes paid by the employer (*such as unemployment insurance premiums*)
  - Self-employed and subcontractor income (*not to exceed \$100,000 per year*)
- ☐ **Interest on Mortgage(s)** (*not principal*) (*incurred before February 15, 2020*)
- ☐ **Rent** (*including rent under a lease agreement*) (*in force before February 15, 2020*)
- ☐ **Utilities** (*under service agreements dated before February 15, 2020*)  
Electricity, gas, water, transportation, telephone, or internet access.  
(*The utilities calculation for self-employed borrowers is limited to those utilities claimed as a deduction on the 2019 Form 1040 Schedule C.*)
- ☐ **Interest on Any Other Debt Obligations** (*incurred before February 15, 2020*)

### Can a PPP loan be forgiven in whole or in part?

Yes, the loan can be forgiven. The single largest advantage of the PPP program is the ability to have your loan forgiven, so you are not obligated to make interest or principal payments. This will require following the rules of the program and providing good records proving you have followed them. The amount of loan forgiveness can be up to the full principal amount of the loan and any accrued interest provided funds are used for covered expenses. At least 75% of the loan forgiveness amount must be attributed to payroll costs. Not more than 25% of the loan forgiveness amount may be attributable to non-payroll costs.

*As guidelines are further defined by the Treasury Department and the Small Business Administration (SBA), the information listed is subject to change. Be sure to consult your tax accounting and financial professional regarding their interpretation of the PPP forgiveness for your specific situation.*

To have your loan forgiven either in total or in part, you must meet the following rules:

- **Eight Weeks of Testing:** Starting from the day you received the funds of the loan from WestStar (not when you electronically signed the agreement).
- **75% to Payroll:** At least 75% of your loan proceeds must be used to pay for payroll costs. Payments to independent contractors CANNOT be included in your payroll cost. You can use the remaining 25% of the loan proceeds to pay eligible expenses such as mortgage interest, rent, and utilities.
- **Headcount:** The most important part of forgiveness is to maintain your staffing levels. To understand how much you need to spend on payroll to achieve forgiveness, calculate the average number of full-time equivalent (FTE) employees by using the following calculation:
  - Calculate the average number of employees during the eight weeks following the date at which you obtained your loan proceeds. Call this "Base Amount"
  - Calculate the number of FTE employees you had between February 15, 2019, and June 30, 2019. Call this "Option 1."
  - Calculate the number of FTE employees you had between January 1, 2020, and February 29, 2020. Call this "Option 2."
- **Base Amount:** Take the Base Amount and divide by Option 1 then do the same by dividing by Option 2. Take the largest number between your Option 1 and Option 2 calculation. Note that if you are a seasonal employer, you must use Option 1.
  - If the result of your calculation is larger than "1," then you successfully maintained your headcount, and you meet this requirement in full.
  - If you get a number smaller than "1," then you did not maintain your original headcount and the amount for which the PPP loan can be forgiven will be reduced proportionately. For example, if your calculation resulted in a "0.75" result, then you could be eligible for getting up to 75% of your loan forgiven provided you meet the other criteria.
- **Salary/Wage Amount:** For every employee that did not make more than \$100,000 of annualized pay for 2019, you must maintain 75% of the pay received during the eight-week test period compared to the most recent quarter they were employed. If pay was reduced below 75% compared to the quarter prior to the eight-week test period, then forgiveness will be reduced by that difference. For example, if you reduced pay by 50%, then  $75\% - 50\%$  equals a reduction of forgiveness by 25%.
- **Rehiring:** If you furloughed, laid off, or terminated staff prior to the eight-week test period, you can hire them back on prior to June 30th, 2020, to still qualify for all or a portion of forgiveness. Further, if you reduced the salary below the 75% level, you can also reinstate any pay below that level.

## What documentation will be required to submit to my request for loan forgiveness?

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Borrowers must apply to WestStar by submitting all the relevant paperwork, at which time WestStar will have up to sixty days to approve or deny the application. You must provide certification indicating:

- The documentation presented is true and accurate;
- The amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments.

You should submit the following, as applicable, to substantiate your request for loan forgiveness:

- ☐ **IRS Form 941 and State Quarterly Wage Unemployment Insurance Tax Reporting Forms** or equivalent payroll processor records that best correspond to the eight-week covered period (*with evidence of any retirement and health insurance contributions*)
- ☐ **Evidence of Business Rent or Business Mortgage Interest Payments** (i.e., copies of all lease agreements for real estate and tangible personal property and proof of payment)
- ☐ **Evidence of Business Utility Payments** (i.e., copies of cancelled checks, statements, or other evidence of utilities paid)
- ☐ **IRS 2019 Form 1040 Schedule C** (*provided at the time of the PPP loan application*) must be used to determine the amount of net profit allocated to the business owner

WestStar reserves the right to request additional information as may be required by the Small Business Administration and/or WestStar.

NOTE: We will ask you to upload these documents. If these documents are not in digital form, take the time soon to scan these and get them ready for upload using an Adobe PDF, JPEG, or PNG file format.

## Loan Forgiveness Details and Limits

- **Timing your payroll:** Depending on your payroll schedule and systems, you may want to adjust the timing of your payroll date to accommodate as many payroll cycles as possible since it appears that forgiveness is calculated on a cash, not accrual basis. As such, keeping all cash payroll payments within the eight-week test period window makes cash flow more manageable. For example, if your PPP loan got deposited in your bank account on April 30, you could only use the funds on expenses incurred during the eight weeks following April 30.
- **\$100,000 Limit:** Be aware that if you pay any single employee (including yourself) more than \$3,846.15 per 2-week pay period (an annualized \$100,000 per year), that amount will not count towards the loan forgiveness. At the time of this posting, the SBA has been vague about the exact way ineligible pay is deducted from the forgiveness amount, so, for best results, be conservative.

## EIDL Grant Recipients

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If you received a grant up to \$10,000 from the Economic Injury Disaster Loan (EIDL) program, these proceeds will be deducted from your PPP forgiveness amount. For example, if you have a \$10,000 EIDL grant and a \$100,000 PPP loan in which you qualify for 100% forgiveness, then your forgiveness amount will be \$90,000, and you will then be required to pay off the \$10,000 remaining over the term of the loan.

#### **What if the loan is not forgiven?**

Your loan may not be approved for forgiveness or you may decide not to ask for forgiveness because you do not meet the forgiveness requirements under the program. Examples include:

- Did not use 75% of the proceeds for payroll costs.
- Reduced full-time employee headcount.
- Salaries and wages were reduced by more than 25% for any employee who made less than \$100,000 in 2019.

In the event your loan is not forgiven, you will continue to make your principal and interest payments after the deferral period until the loan is extinguished.