

## Next Steps for your Paycheck Protection Program (PPP) Careful Management, Tracking, and Forgiveness

*Created May 18, 2020*

**Last updated: June 8, 2020: Important updates regarding compensation, timing, spending allocations, and applying for forgiveness.**

*This resource is not all-inclusive on the topic(s) presented and not intended as legal advice.*

**Given the ongoing updates and expanding guidance to the PPP program, content here may be outdated.** For current updates and extensive guidance on the Paycheck Protection Program, refer to [FMA's PPP Toolbox](#). FMA is providing ongoing webinars on this topic as developments occur and have links to their latest recordings.

[The SBA is continuing to provide further guidance through their FAQ.](#)

### Summary

This resource is for nonprofits that received a loan through the 2020 Paycheck Protection Program (PPP). If you received a PPP loan, there's work that needs to be done to ensure you are using the loan appropriately and that it will be forgiven. We recommend treating the loan as a restricted grant to help you follow guidelines and track expenses. Fortunately, the nonprofit sector is well versed in this.

### Handle PPP loans in the same way we do grants:

- Make sure we are meeting the guidelines of restriction on use and timing
- Track the funds accurately in our accounting system
- Report upon the use of the funds per the reporting requirements

### Don't Assume Full Forgiveness.

Forgiveness of the PPP Loan is not guaranteed. Many criteria must be met for the loan to be forgiven. Loan proceeds not spent on forgivable expenses will remain a loan.

By following the guidance below and through in depth analysis of your specific situation, each organization should calculate what percentage of their loan can be forgiven and what percentage will have to be paid back. These estimates will help to make your revenue projections and scenario planning accurate.

## Forgivable Expenses

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*At least 60% of the PPP loan must be used on payroll, and no more than 40% can be used on other expenses including, rent, utilities, mortgage interest, and interest payments on other debt obligations.*

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### Forgivable Payroll Expenses

**At least 60% of the loan must be used on payroll expenses.** Forgivable payroll expenses include anything that would be considered gross wages on a W-2 such as salaries, paid leave, vacation, bonuses, company portion of retirement contribution, company-paid medical, dental and vision insurance, and state taxes.

The employer portion of federal taxes, such as FICA, are not forgivable, nor are payroll processing fees.

### Staffing Levels

Staffing levels must be maintained; otherwise, a reduction in forgiveness will be assessed. You must retain the same number of full-time equivalent (FTE) staff during the coverage period as you had either February 15-June 30, 2019 or January 1-February 29, 2020. There are several exceptions to this rule that we are awaiting SBA guidance for.

### Compensation Limits

Gross compensation is forgivable for annual salaries and capped at \$100,000 per employee per year. In other words, employees' salaries are forgivable up to \$1923/week. We are awaiting further guidance whether there will still be a \$15,385 total per employee cap, or if that will be increased to \$46,153. Benefits are not included in this gross compensation calculation.

### Compensation Levels

Staff salaries may not be reduced by more than 25% for those making less than \$100,000. Any reduction in salaries by more than 25% will result in a reduction of the forgiveness amount equal to the amount of salary reduced beyond 25%. For example, if someone makes \$50,000 but has their salary reduced to \$35,000, that is a 30% reduction. Only 25% is allowed. Therefore, the additional 5% reduction is subtracted from the total forgiveness amount. There are exemptions to this rule if salaries are replenished by 12/31/2020.

### Forgivable "Other" Expenses

No more than 40% of the PPP loan can be spent on "rent, utilities, mortgage interest, interest payments, or other debt obligations." Utility expenses may include water, electricity, gas, internet, and phone.

## Timing of Expenses

Borrowers may include both expenses incurred during the 8 or 24-week period **and** expenses paid during the period. The covered period is 8 or 24 weeks starting on the date of disbursement.

Two new interim rules were released on May 22. The new rules clarified the confusion regarding the timing of expenses. The additional guidance states that forgivable expenses can be either incurred “or” paid during the covered period. Any expense incurred but not paid during the covered period must be paid on or before the next regular billing cycle.

This new clarification means that some organizations, depending upon their billing and payroll cycles, will be able to include more than 8 or 24 weeks of expenses and payroll on their forgiveness application.

## Double Dipping and Grant Funds

Federal grant funds should not be used on the same expense as PPP forgivable expenses. There is a consensus that other grant funds should follow this rule as well. Therefore, organizations should map out their restricted expenses versus their PPP forgivable expenses over the covered period to make sure there is no overlap.

You may have to talk to your funders and discuss the options of moving project timelines back, releasing restrictions, and any other modifications you may need on current grant agreements.

With the expanded 24 week forgiveness period, this should make it easier to ensure double-dipping doesn't occur.

## Applying for Forgiveness

The SBA released its [application for loan forgiveness](#) on May 15, 2020. The application has yet to be updated with the latest guidance and the process remains unclear. Borrowers have up to 10 months to submit their forgiveness application. Since any accrued interest on the forgivable loan amount will also be forgiven, there is no rush for organizations to submit their forgiveness applications. Regardless of how it turns out, organizations should be ready to report in detail the use of the PPP funds.

## PPP and Your Accounting System

Nonprofits are used to tracking restricted fund balances in their accounting system. This should also be applied to PPP loans. Because PPP loans may be spent across cost centers and programs, some consideration should be taken regarding how to do this effectively.

If you are a current Wilburforce Grantee, please feel free to reach out to [TREC](#) for guidance on this for your organization.