

You borrowed the money. Now it's time to apply for loan forgiveness.

You borrowed money under the paycheck protection program with the intention of having the loan forgiven. The Small Business Administration has released an [11-page application](#) form, a separate Schedule A, a Schedule A worksheet and a bonanza of instructions to help you apply for loan forgiveness.

The SBA has also issued a new set of [interim final regulations](#) covering loan forgiveness.

The application for forgiveness is submitted to your bank, not the SBA. And your bank makes the decision to forgive your loan.

Bottom line: Applying for forgiveness will be more complicated than applying for the loan.

The loan forgiveness process, in general

PPP loans may be forgiven if you used at least 75% of the loan to pay and provide benefits to employees for eight weeks. The remaining 25% could be used for costs paid or incurred for rent, mortgage payments, utilities, etc.

Key clarification: Most employers use an accrual method of accounting. The regs take this into account by saying payroll costs are considered *paid* on the day paychecks are distributed or an ACH credit transaction is originated. The regs also say payroll costs *incurred* during your last pay period of the covered period or the alternative payroll covered period (see below) are eligible for forgiveness if paid on or before your next regular payroll date.

Break: Nonpayroll costs are eligible for forgiveness if they are paid or incurred during the covered period and paid on or before the next regular billing date, even if the billing date occurs after the covered period expires.

One big issue with PPP loans is that the eight weeks of pay and benefits may not have coincided with your regular pay schedule. The forgiveness application and regs make two points:

- The first day of the period covered by your loan (i.e., the covered period) must be the same as the PPP loan disbursement date. For example, if you received your loan on Monday, April 20, the first day of your covered period is April 20 and the last day is Sunday, June 14.
- Or, if you pay biweekly or more often, you can choose to calculate the payroll costs eligible to be forgiven by using the eight-week period beginning on the first day of the first pay period after you receive your loan. For example, if you received your loan on Monday, April 20, and the first day of your first biweekly pay period is Sunday, April 26, the first day of this alternative payroll covered period is April 26 and the last day is Saturday, June 20.

Read carefully: The alternative payroll covered period and the covered period aren't interchangeable and there are limits:

- You can't use the alternative payroll covered period if you pay semimonthly or monthly.
- You can use the alternative payroll covered period on Line 1 of the loan forgiveness application; for Lines 3, 6-9 and 11-13 on Schedule A; and to figure cash compensation, full-time equivalent employees (i.e., employees working 40 hours a week) and salary reductions on Schedule A.
- You must use the covered period for eligible nonpayroll costs, which are entered on Lines 2-4 of the application; to indicate a reduction in full-time equivalent employees on Schedule A; and the amount of pay eligible for forgiveness on the Schedule A worksheet.

Payroll information necessary for loan forgiveness

It's a safe bet you won't be filling out this application yourself. Nevertheless, you'll probably be asked to provide the payroll information necessary to complete it. Be prepared to cull the following from your records:

- The number of full-time employees on the payroll when the loan application was made
- The number of FTEs on the payroll when the forgiveness application was made
- Employees who refused your return-to-work offer
- Employees who were terminated but rehired by June 30
- The pay periods encompassing your alternative covered period
- Employees whose pay was reduced by more than 25% during the covered period or alternative covered period when compared to their pay from Jan. 1, 2020, through March 31, 2020.
- **Payroll costs**, including bonuses or hazard pay, up to \$100,000 per employee
- Amounts paid to owner-employees. These amounts are capped at the lesser of \$15,385 (i.e., the eight-week equivalent of \$100,000 a year) or 8/52 of their 2019 compensation per owner-employee.

Payroll documentation to be submitted with the forgiveness application

Get ready to gather the following information:

- Documentation verifying the eligible cash compensation and noncash benefit payments from the covered period or the alternative payroll covered period, including:
 - Bank account statements or third-party payroll provider reports documenting the amount of cash compensation paid to employees
 - Tax forms (or equivalent third-party payroll provider reports) for the periods overlapping with the covered period or the alternative payroll covered period, including Forms 941, state quarterly business returns and unemployment wage and tax reports
 - Receipts, cancelled checks or account statements documenting employer contributions to employees' health and retirement plans, which you included in the forgiveness amount
- The average number of FTEs on the payroll per month between Feb. 15, 2019, and June 30, 2019
- The average number of FTEs on the payroll per month between Jan. 1, 2020 and Feb. 29, 2020.