

# What's new with PPP? Another interim final rule

Wow. It's been way too long, hasn't it?

The Small Business Administration's latest [interim final rule](#), released Aug. 24, clarifies a couple of issues regarding Paycheck Protection Program loan forgiveness.



## Owner compensation

The amount of forgivable compensation paid to an employee-owner of a C corp or S corp is limited:

- The maximum forgivable amount for employee-owners of C corps is 2.5/12 of 2019 cash compensation, plus employer contributions for retirement and health benefits.
- The maximum forgivable amount for employee-owners of S corps is 2.5/12 of 2019 cash compensation, plus employer contributions for retirement benefits.

Not everyone with an ownership stake in a company, however, counts for these compensation limits. The Aug. 24 interim final rule clarifies that employee-owners with less than a 5% ownership stake in a C corp or S corp aren't subject to the employee-owner compensation rule.

*Upshot:* For those employees, the \$100,000 compensation limit applies.

## Nonpayroll costs

PPP loans are forgivable if you spend 40% of the proceeds on rent, utilities and similar nonpayroll items.

The interim final rule clears up some issues regarding rent. Under the rule, the amount of loan forgiveness requested can't include any amount attributable to the business operation of a tenant or subtenant of the PPP borrower or, for home-based businesses, household expenses.

*Example.* Speedy rents an office building for \$10,000 a month and subleases a portion to other businesses for \$2,500 a month. Only \$7,500 a month is eligible for loan forgiveness.

*Example.* Sparkle Jewelers shares a rented space with other jewelers. When determining the amount eligible for loan forgiveness, Sparkle must prorate rent and utility payments in the same manner as on its 2019 Form 1120.

*Example.* Alison works from home. When determining the nonpayroll costs eligible for loan forgiveness, she can include only the share of covered expenses she listed as deductible expenses on her 2019 Form 1040, Schedule C.

Rent payments to a related party are eligible for loan forgiveness if the following two conditions are met:

- The amount of loan forgiveness requested for rent or lease payments doesn't exceed the mortgage interest owed on the property during the covered period that's attributable to the space being rented by the business
- The lease and the mortgage were entered into prior to Feb. 15, 2020.

Any ownership in common between the business and the property owner is a related party for these purposes.

*Catch:* While rent or lease payments to a related party may be eligible for forgiveness, mortgage interest payments to a related party aren't eligible for forgiveness.