

Paycheck Protection Program (PPP)

FREQUENTLY ASKED QUESTIONS – Allowable Uses and Forgivable Expenses

As of April 23, 2020

Q1. Are the allowable uses for the PPP loan proceeds the same as those we can get forgiven?

No. The type of expenses differs slightly as well as the period they cover. (See Chart attached.) The loan may be used for certain expenses during February 15, 2020 and June 30, 2020. The portion of the loan that may be forgiven is based on a slightly different list of expenses that are incurred and paid during the 8-week period beginning on the first day loan proceeds are disbursed.

Q2. You said that the loan may be used for certain expenses during February 15, 2020 and June 30, 2020, but I received my loan on April 15, 2020. What happens to the expenses paid prior to April 15, 2020?

Our interpretation, pending additional guidance from the SBA, is that if you had payments after February 15, 2020 and before the date you receive your loan for “allowable uses”, you effectively can reimburse yourself to that extent. However, as these expenses were incurred before receipt of the PPP loan, they are not eligible for forgiveness.

To further this point, your reimbursement could be spent after June 30, 2020.

Q3. What are the allowable uses for PPP loan Proceeds?

Proceeds may be used for the following items between February 15, 2020 and June 30, 2020:

1. “Payroll costs”;
2. Costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;
3. Employee salaries, commissions, or similar compensations;
4. Payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation);
5. Rent (including rent under a lease agreement);
6. Utilities; and
7. Interest on any other debt obligations that were incurred before the covered period.

See Q2 regarding expenses paid prior to the receipt of the funds.

Q4. Can proceeds of the loan be used to pay expenses incurred after June 30, 2020?

Our interpretation, pending additional guidance, is if there were allowable uses between February 15th and the date the loan is funded, to the extent the reimbursement of these expenses create cashflow, such cash can be used after June 30th without limitation including expenses paid after June 30th. Only expenses incurred and paid during the 8 weeks after the funds are received are eligible for forgiveness.

See Q2 regarding expenses paid prior to the receipt of funds.

Q5. I heard you say expenses had to be “incurred” in order to be forgiven. What do you mean by “incurred”?

Incurred is not defined in the CARES act. Accounting definitions suggest the cost must be for services performed or goods received during the 8-week period.

Q6. What expenses may be forgiven? What is the difference between forgivable costs and allowable uses?

To be forgiven – amounts must be incurred and paid for the 8-week period beginning on the first loan disbursement day for the following:

1. “Payroll costs”;
2. Payments of interest on any covered mortgage obligation on real or personal property that was in existence prior to February 15, 2020;
3. Payments on any covered rent obligation in existence prior to February 15, 2020; and
4. Covered utility payments.

There are three major differences:

1. For allowable uses – there is no cap on employee salaries, commissions or similar compensations. For the forgiven amounts, however, the actual payments of cash are capped at the 100,000 annualized cap.
2. You can use the loan to pay any interest, even if incurred prior to February 15, 2020, but you can only be forgiven for mortgage interest during the 8-week period.
3. As noted in the Q&A above, the time period differs.

Q7. Is there any clarification on what constitutes “rent” or “mortgage obligation”?

Yes. The latest interim rule for Schedule C Taxpayers (Interim Final Rule - Additional Eligibility Criteria and Requirements for Certain Pledges of Loans) includes rent payments on a vehicle you use to perform your business. Therefore, rent includes leases on both real and personal property.

As for “mortgage obligation,” this generally refers to a secured loan. The interim rule referred to above includes as examples both interest on a vehicle loan as well as interest on a warehouse loan, which are generally secured loans.

Q8. What are the consequences if my loan exceeds my allowable uses?

We think this circumstance would be rare because the allowable uses are 4.5 months of eligible expenses and the maximum loan was 10 weeks of payroll expenses. However, we are unsure of the answer at this time. Our suggestion would be to seek legal guidance if this circumstance occurs.

Q9. Will 100% of my PPP loan be forgiven?

It is highly unlikely that 100% of the loan will be forgiven unless payroll costs increase over the 8-week period. Assume that your payroll costs are identical in 2020 to the payroll costs in 2019. You receive a \$900,000 loan. During the 8-week period, you pay \$663,600 (the same amount paid in 2019) in payroll costs and use the remaining proceeds, \$236,400 to pay utilities and rent. The maximum loan forgiveness is \$884,800 (\$663,600/75%) because the forgivable portion of non-payroll costs is limited to 25%. The forgiven amount consists of \$663,600 of payroll costs and \$221,200 of other forgivable costs.

ILLUSTRATION:

Period 1	Period 2 (aka Covered Period) Forgivable Period	Period 3	Post 6/30
Reimburse business for expenses already incurred and paid following 2/15 and prior to receipt of funds using PPP funds	8-week period eligible for forgiveness	Allowed to spend any remaining PPP funds on allowable expenses until 6/30	Awaiting further guidance from SBA

2/15

6/30

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