# Paycheck Protection Program

## Calculating Your Forgiveness Amount

### How much of my loan may be forgiven?

The amount eligible for Paycheck Protection Program ("PPP") loan forgiveness is based on three main factors:

1. **spending on eligible payroll and non-payroll expenses** during the 24-week forgiveness period,
2. **reductions** based on decreases in salary or hourly wages and the number of full-time equivalent employees ("FTEs") and
3. at least 60% of the loan amount being spent on eligible payroll costs.

### Forgiveness Period: Covered Period or Alternative Payroll Covered Period

**Covered period:** Relevant period to consider when calculating loan forgiveness amount is the period from loan origination through the earlier of 24 weeks after origination or December 31, 2020 ("Covered Period")

- **Note:** If you received a loan before the enactment of the Paycheck Protection Program Flexibility Act (6/5/20), you can elect to continue using the 8-week period (applicable under prior law) following the loan origination date as the Covered Period.

- **Note:** Borrowers with a biweekly (or more frequent) payroll may elect to calculate costs using the 24-week period (or, for loans received before 6/5/20, the 8-week period) that begins on the first day of their first pay period following the first loan disbursement date ("Alternative Payroll Covered Period").

### Reductions to Forgiveness Amount and Safe Harbors

#### Reasons Forgiveness May Be Reduced

- The average number of FTEs during the Covered Period or Alternate Payroll Covered Period (as applicable, the “Forgiveness Period”) is less than the average number of FTEs during the reference period used when applying for the loan,
- An employee’s average pay during the Forgiveness Period is less than 75% of their average pay during the period from January 1 through March 31, 2020, or
- The borrower received an EIDL advance.

#### Some Exceptions

- Borrower rehires and restores salary and wage levels by December 31, 2020 (with limitations).
- Employee was fired for cause, voluntarily resigned or voluntarily requested and received a reduction of hours.
- Borrower attempted to rehire but employee rejected offer, and buyer informed the state unemployment office of the rejected offer within 30 days of the rejection.

### Eligible Payroll Costs Paid or Incurred During the Forgiveness Period (at least 60% of total loan amount)

- **salary, wages, bonuses, hazard pay, and commissions to furloughed employees** (up to $100,000 annualized or, for owner-employees and self-employed individuals, the lesser of $100,000 annualized or 2.5 times (or, if using an 8-week Forgiveness Period, 8/52 times) their average monthly 2019 compensation across all businesses),
- (2) employer contributions to employee retirement plans and group healthcare coverage (but not contributions to retirement or health insurance by sole proprietors or self-employed individuals), and
- (3) payments of employer portion of state and local taxes assessed on compensation.

- Eligible if incurred during Forgiveness Period and paid on or before next regular payroll date (even if payment date is after 24-week Forgiveness Period).

- Costs are considered **incurred** on the day an employee’s pay is earned and **paid** on the day a paycheck is distributed or borrower originates an ACH credit transaction.

### Eligible Non-Payroll Expenses Paid or Incurred During the Covered Period (at most 40% of total forgiveness amount)

- **Mortgage interest payments:** Business mortgage on real or personal property; mortgage must have been incurred before February 15, 2020; cannot include prepayments of interest or payments of principal.
- **Rent or lease payments:** Real or personal property; contract in force before February 15, 2020.
- **Utility payments:** Electricity, gas, water, transportation, telephone, internet access for which service began before February 15, 2020.

---

This information is current as of June 25, 2020 and should not be considered comprehensive. This is not a substitute for, and should not be relied upon as, legal or professional advice; we recommend that you consult professional advisors for guidance on your individual circumstances. Nothing contained herein creates an attorney-client relationship with Cleary Gottlieb. This information should not be construed as an endorsement of any financial program.
PPP Loan Forgiveness
Calculating Reduction in Forgiveness

Will my forgiveness amount be reduced if I have reduced my number of FTEs?

— Forgiveness Reduction
  • Your loan forgiveness will be reduced if your average number of weekly FTEs during the Forgiveness Period is less than your average number of FTEs during your chosen reference period, which could be either the period from February 15, 2019 to June 30, 2019 or the period from January 1, 2020 to February 29, 2020 (or if you are a “seasonal employer” (as defined by the SBA), you may elect to use any consecutive twelve-week period between May 1, 2019 and September 15, 2019).

— Two Options for Measuring Your FTEs
  • Option A: For each employee, divide the number of hours paid per week by 40, and round the total to the nearest tenth. (The maximum for each employee is capped at 1.0, even if the employee works more than 40 hours per week.)
  • Option B: Count each employee who works 40 hours or more per week as 1.0 FTE and each employee who works less than 40 hours per week as 0.5 FTE.

— Do You Satisfy Either of the FTE Reduction Safe Harbors?
  • You are exempt from the reduction in loan forgiveness based on FTEs if: (1) you reduce your FTE levels in the period beginning February 15, 2020, and ending April 26, 2020; and (2) you then restore your FTE levels by December 31, 2020 to your FTE level during the pay period that included February 15, 2020.
  • You are exempt from the reduction in loan forgiveness based on FTE if: you are able to document in good faith that you were unable to return to same level of business due to compliance with COVID-19-related restrictions issued by the Department of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration during March 1, 2020 through December 31, 2020.

— What if I am Unable to Rehire my Employees or Otherwise Fill Vacant Positions?
Any FTE reductions due to the following will not reduce your loan forgiveness:
  • You made a good-faith, written offer to rehire an employee during the Forgiveness Period (for the same salary/wages and number of hours), the offer was rejected by the employee, you maintained records and informed the state unemployment insurance office of such employee’s rejected offer of employment within 30 days of the rejection, and you were unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020,
  • You made a good-faith, written offer to restore any reduction in hours, at the same salary or wages, during the Forgiveness Period and the employee rejected the offer, and
  • Employees who during the Forgiveness Period (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested and received a reduction of hours.

Will my forgiveness amount be reduced if I have reduced salaries or wages?

— Forgiveness Reduction
  • Your loan forgiveness amount will be reduced for each employee whose salary or hourly wages during your Forgiveness Period were reduced by more than 25% as compared to the period from January 1, 2020 to March 31, 2020. The amount of reduction in loan forgiveness is based on the amount of the reduction in pay that is more than 25%.

— Do You Satisfy the Wage Reduction Safe Harbor?
  • You are exempt from the reduction in loan forgiveness based on an employee’s wage reduction if the employee’s salary or hourly wage was (1) reduced between February 15, 2020 and April 26, 2020, but (2) restored by December 31, 2020.
PPP Loan Forgiveness

How to Apply

How do I apply for PPP loan forgiveness?

Submit the PPP Loan Forgiveness Application (either the standard application or streamlined “EZ” application) or an equivalent form from your lender and required documentation to your lender (or the lender servicing your loans) within 10 months after the end of the Forgiveness Period. The standard application is available [here](#), with instructions [here](#). The EZ application is available [here](#), with instructions [here](#).

Who is eligible to use the EZ application?

1. Self-employed individuals, independent contractors, or sole proprietors with no employees,
2. Borrowers who did not reduce salary/wages by more than 25% during the Forgiveness Period AND did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period (subject to certain exceptions), or
3. Borrower did not reduce salary or wages by more than 25% during the Forgiveness Period and was unable to operate during the Covered Period at same level of business activity as before February 15, 2020 due to federal government requirements or guidance related to the pandemic.

Suggested Process for Filling Out Standard PPP Loan Forgiveness Application

- **Step 1**: PPP Schedule A Worksheet (page 4 of application; pages 4-5 of instructions to standard application).
  - This will help you determine FTE and wage reduction amounts (if any) and whether any FTE reduction safe harbor is met.
  - Not relevant for independent contractors or sole proprietors with no other employees.
  - You are not required to submit the worksheet with the application, but you must keep these records (or similar document) for 6 years after the loan is forgiven or repaid in full.
  - You will need to include the last four digits of the social security number of each employee listed.
- **Step 2**: Schedule A (page 3 of application; page 3 of instructions to standard application).
  - Use information from the Schedule A Worksheet and additional information about your business to fill out Schedule A, which gets submitted with the application.
- **Step 3**: Loan Forgiveness Calculation (page 1 of application; pages 1-2 of instructions to standard application).
- **Step 4**: Certification (page 2 of application).
- **Step 5**: Organize the documents that must be submitted with the application or maintained for recordkeeping (pages 6-7 of instructions to standard application)
  - Documents to submit with the application: PPP Loan Forgiveness Calculation form (with signed certification); PPP Schedule A; supporting documents (including: payroll documents, tax forms, receipts, bank statements, documents verifying payments for mortgage, rent, and/or utilities, as applicable).
- **Step 6** (optional): Complete the Borrower Demographic Information form (page 5 of application).

What happens after I submit the application?

- **Timing**: Lender has 60 days to submit a decision on forgiveness to the SBA, which then has 90 days to review.
- **Decision**: Lender may approve the application (in whole or in part), deny, or deny without prejudice due to pending SBA review.
  - If your lender denies the application, you may either (i) request reconsideration, or (ii) within 30 days of receiving the decision, request that SBA review.
  - You will be able to appeal if SBA concludes that you are ineligible for a PPP loan, for the loan amount received, or for loan forgiveness. The SBA will issue additional guidance on appeals.
- **Repayment**: If the forgiveness application is denied, or only a portion of the loan is forgiven, you must repay the remaining balance due on the loan (at an interest rate of 1%), but payments of principal and interest on any unforgiven loan amounts are deferred until the date on which the amount of forgiveness is determined. If a borrower does not apply for forgiveness within 10 months after the end of the Forgiveness Period, the deferral would end on the date that is 10 months after the end of the Covered Period.
- **Recordkeeping**: Maintain everything related to the loan and loan forgiveness application (even if not required to be submitted at the time of the forgiveness application) for 6 years after the loan is forgiven or repaid, including: PPP Schedule A Worksheet (or equivalent); supporting documentation for declarations made in worksheet (e.g., employees, salaries, FTEs, pandemic restrictions); supporting documentation for special circumstances (e.g., job offers and refusals, firings for cause, voluntary resignations, employee requests for reduced schedules); and all other documents relating to the loan application and forgiveness application.
## PPP Loan Forgiveness

### Some Sample Scenarios

#### EXAMPLE 1: No Layoffs

- **Facts**
  - You have 8 full-time employees who work at least 40 hours each week at $20/hour.
  - You receive a PPP loan of $64,000. The 24-week period after loan origination is April 26 to October 11, but you elect to use the 8-week period following origination as your Covered Period and you make no reductions to headcount or wages during that period.
  - You spend $12,800 on mortgage interest, rent and utilities during your Covered Period, and no amounts on state or local taxes, group health insurance, employee retirement plans or as compensation to business owners.

- **Forgiveness calculation**
  - Payroll costs: $51,200 = 40 hours × $20/hour × 8 employees × 8 weeks
  - Eligible non-payroll costs: $12,800
  - Forgiveness amount: $51,200 + $12,800 = $64,000
  - 100% forgiveness

#### EXAMPLE 2: Layoffs – Safe Harbor NOT Satisfied

- **Same facts as Example 1 except you lay off six employees on April 11; you use the 24-week period following loan origination as your Covered Period, and you assume the pandemic restriction FTE safe harbor does not apply.**

- **Loan reduction:**
  - Average number of FTEs during chosen reference period: 8
  - Average number of FTEs during Covered Period: 2 (i.e., reduced from reference period)

- **Safe harbor:** Not satisfied.
  - Total FTE in pay period including February 15, 2020: 8
  - Average FTE for each of the 2 retained employees is 1.0
  - Averaged FTE for each of the 6 laid-off employees:
    - 8 weeks × 40 hours = 320 hours
    - 2 weeks × 0 hours = 0 hours
    - 10 weeks
    - Average FTE is 0.8 = (320 hours ÷ 10 weeks) ÷ 40
  - Total average FTE: 2.33 = (1 × 2 employees) + (0.8 × 6 employees)

- **Forgiveness calculation**
  - Payroll costs: $38,400 = 40 hours × $20/hour × 2 employees × 24 weeks
  - Eligible non-payroll costs: $12,800
  - Forgiveness (with reduction based on FTEs): ($38,400 + $12,800) × (2 ÷ 8) = $12,800
  - 20% forgiveness

#### EXAMPLE 3: Layoffs – Safe Harbor Satisfied

- **Same facts as Example 2 except you rehire two of your employees on September 13 (20 weeks into the Covered Period); other four are rehired on December 1 (all at the same wage), and you assume the pandemic restriction FTE safe harbor does not apply.**

- **Loan reduction:**
  - Average number of FTEs during chosen reference period: 8
  - Average number of FTEs during Covered Period: 2.33* (i.e., reduced from reference period)

- **Safe harbor:** Satisfied.
  - Total FTE in pay period including February 15, 2020: 8
  - Total FTE as of December 31, 2020: 8 (i.e., headcount restored)

- ** Forgiveness calculation**
  - Payroll costs: $44,800 = (40 hours × $20/hour × 2 employees × 24 weeks) + (40 hours × $20/hour × 2 employees × 4 weeks)
  - Eligible non-payroll costs: $12,800
  - Forgiveness amount: ($44,800 + $12,800) = $57,600
  - 90% forgiveness

*How do you get to 6.8?*

- Average FTE for each of the 2 retained employees is 1.0
- Averaged FTE for each of the 6 laid-off employees:
  - The layoffs occurred 8 weeks into the 10-week safe harbor measurement period.
  - Average FTE is 0.8 = ([8 weeks × 40 hours] + [2 weeks × 0 hours] ÷ 10 weeks) ÷ 40
  - Total average FTE: 2.33 = (1 ÷ 2 employees) + (0.8 ÷ 6 employees)

*How do you get to 2.33?*

- Average FTE for each of the 2 retained employees is 1.0
- Averaged FTE for each of the 2 employees rehired during covered period:
  - Total average FTE: 2.33 = (1 × 2 employees) + (0.167 × 2 employees)
  - $12,800
  - 90% forgiveness

---

*(continued on next page)*
EXAMPLE 4: Reducing Full-Time Employees to Part-Time – Safe Harbor NOT Satisfied

— Same facts as Example 1 except all eight employees are reduced to part-time (20 hours/week, still at $20/hour) on April 11, their hours are not restored as of December 31 and you assume the pandemic restriction FTE safe harbor does not apply.

✓ Loan reduction:
  • Average number of FTEs during reference period: 8
  • Average number of FTEs during Covered Period: 4

× Safe harbor: Not satisfied.
  • Total FTE in pay period including February 15, 2020: 8
  • Average number of FTEs during period from February 15, 2020 to April 26, 2020: \( 7.2^* \)
  • Total FTE as of December 31, 2020: 4 (i.e., headcount not restored)

EXAMPLE 5: Reducing Wages

— Same facts as Example 1 except each employee’s hourly wages are reduced from $20/hour to $10/hour on April 11, 2020 (and are not restored to $20/hour as of December 31).

✓ Loan reduction: $10/hour divided by $20/hour is 50%, so wages reduced by more than 25%.

× Safe harbor: Not satisfied. Average hourly wage between February 15 and April 26, 2020 is \$18^*\), which is less than the average wage as of February 15, 2020, and wages are not restored.

 Forgiveness calculation

• Payroll costs: \$76,800 = 20 hours × $20/hour × 8 employees × 24 weeks
• Eligible non-payroll costs: $12,800
• Forgiveness (with reduction based on FTEs): \((76,800 + 12,800) × (4 ÷ 8) = 44,800 \) ➔ 70% forgiveness

*How do you get to 7.2?

— Averaged FTE for each of the 8 part-time employees:
  • Reduction to part-time occurred 8 weeks into the 10-week safe harbor measurement period.
  • Average FTE is \( 0.9 = \left( \left( 8 \text{ weeks} × 40 \text{ hours} \right) + \left( 2 \text{ weeks} × 20 \text{ hours} \right) \right) ÷ 10 \text{ weeks} ÷ 40 \)
  — Total average FTE: \( 7.2 = 0.9 × 8 \text{ employees} \)

 Forgiveness calculation

• Payroll costs: $76,800 = 40 hours × $10/hour × 8 employees × 24 weeks
• Eligible non-payroll costs: $12,800
• Wage reduction: \$38,400 = \$5 \times 40 \text{ hours/week} \times 24 \text{ weeks} \times 8 \text{ employees}
• Forgiveness (with reduction based on wages): $76,800 + $12,800 - $38,400 = $51,200 ➔ 80% forgiveness

*How do you get to $18?

\[
\frac{(8 \text{ weeks} × $20) + (2 \text{ weeks} × $10)}{10 \text{ weeks}}
\]