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PPP Forgiveness Planning

As many of the Paycheck Protection Program (PPP) loans have met or are nearing the end of their covered periods, it is time to start thinking about their forgiveness. The PPP was established by the CARES Act in March of 2020 as a response to the COVID-19 pandemic. It provided loans to businesses to help cover their payroll costs as they were impacted by COVID-19.

All loans provided by the PPP are eligible for an 8-week or 24-week forgiveness covered period. You have up until 10 months after the end of your covered period to apply for forgiveness of the loan. Although your bank may be pressuring you, there is no rush in applying for forgiveness as long as you do it before your 10 months are up. There is potential that some loans will qualify for an automatic forgiveness. While there is bipartisan support for this, a bill would have to be passed by congress to make this happen. There is enough potential for the bill to passed that it is a good reason to postpone your forgiveness application.

IRS has stated that expenses covered by the PPP will become non-deductible. This means if your forgiveness is done in 2020, those expenses covered by the PPP will be not be allowed as a deduction this year. Because of this, we will need to know at tax planning if your loan forgiveness is going to come in 2020 or 2021. There are thoughts that congress will override the IRS on the issue of the expenses not being deductible, since they specifically said the funds were non-taxable in the law, although this may not come until 2021. This gives another reason to wait until 2021 to apply for forgiveness. If you were to be granted forgiveness in 2020 and they change the rules in 2021, we would have to amend your 2020 return and possibly end up “wasting” those expenses on lower taxes brackets.

Self-employed individuals should always choose the 24-week forgiveness. This allows their entire loan (unless they also qualified for the PPP based on wages paid to employees) to be completely forgiven. If you were to use the 8-week calculation, it would leave a small amount of the loan unforgiven. You should also avoid reporting any expenses for interest, rent, or utilities. If you do report these expenses, it will make them non-deductible. By using the 24-week period, you will get the PPP money tax free considering the “withdrawal” or reimbursement for income is not deductible to begin with, so there is nothing to exclude. It is probably best to write checks to yourself to prove payment even though it seems unnecessary. Your bank will be making the final approval so you need to follow their rules on this issue.

If you had no reduction in employee Full-Time Equivalents (FTEs), you can use the EZ form to apply for forgiveness. This form is very simple and you probably won’t need any help in

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completing the application. If you did drop FTEs, you may want to compare the 8-week vs 24-week periods. You can still get forgiveness if you restore the employee FTEs by the end of your covered period. The rules for this get significantly more complicated and the compliance with the forms is increased. If you did reduce FTE's, it's even more prudent to wait until next year to apply for forgiveness incase your loan would be automatically forgiven.

In any situation, it is important to remember that your bank will be making final determination on the loan, so you will have to follow their guidance.

SBA Frequently Asked Questions Link