



Many of you have recently received your PPP loan approvals and some have actually received the funds from these loans. The following steps should be taken to insure that you use the funds correctly and receive the greatest possible amount of loan forgiveness.

### **What to do with the funds now that they have been received?**

1. We recommend that the funds for the PPP be placed into a separate account or sub-account in your bank so that tracking is more simple and the funds will not be used for disallowed purposes.
2. PPP funds can only be used for the purposes specified in the terms of the PPP loan. They MAY NOT be used for example to purchase inventory, to update your store or office or for technology needs.
3. The allowed purposes of PPP funds include the following items:
  1. Payroll expenses. This includes wages (up to 100k per employee annualized), state level unemployment taxes and health insurance costs (these may exceed the 100k per employee annualized), it does NOT include the employer's federal payroll taxes.
  2. Rent- (Rental agreement must have been in place prior to this program)
  3. Utilities
  4. Interest on Mortgages relating to the business and in existence prior to the this program
  5. Certain other interest costs
4. You should document all expenditures made from PPP funds to insure that you will be able to provide back-up for your forgiveness claims.

### **How does the loan forgiveness work?**

1. The PPP loan is a 2 year loan with a 6 month grace period. However, part or all of the loan is eligible for forgiveness assuming certain conditions are met.
2. To achieve loan forgiveness, you must prove that you used the funds for the eligible purposes listed above.
3. The use of these funds must be within the 8 week period starting on the day that you receive these funds.
4. The loan forgiveness is limited to an amount that includes at least 75% payroll expenditures (see above in allowed purposes). For example: If one received a \$100,000 PPP loan, to achieve full loan forgiveness, one must prove at least \$75,000 of payroll expenditures during the 8 week period and that the remaining \$25,000 was used for other eligible expenditures during the same period. If one used only \$60,000 for payroll the maximum forgiveness would

be limited to \$80,000, assuming that \$20,000 was spent on other eligible expenditures.

5. If you are self-employed it is assumed that an amount equal to 8 weeks of your 2019 self-employment income will be automatically considered used as a payroll expenditure, although the guidance on this is still unclear as to exactly how this works.
6. Additionally, there is a requirement that the employee headcount remain consistent with the period preceding this program. There will be a partial reduction in the amount of the forgiveness for each reduced employee. We are awaiting further guidance on exactly how this is determined and whether there will be relief for employer's who tried to rehire their employees, but, were unable to because of the current unemployment program (the SBA has indicated that they are working on something in this regard).
7. There is a further test of each current employee's salary against what they made in the prior quarter. This test is not very clear at present, but, it is our understanding that the employee should continue to receive the same salary that they received previously.
8. Whether bonuses, salary increases or one-time commission payments will be included remains to be seen in the final guidance that will be issued.

### **Taxability of the loan forgiveness**

1. The loan forgiveness itself will not be taxable
2. The IRS had indicated that although the loan forgiveness itself will not be viewed as taxable income, any expenses paid with forgiven funds will not be allowable as tax deductions. Effectively, this means that you will ultimately end up paying taxes on whatever is forgiven in the form of reduced tax deductions.

If you have any questions, feel free to give us a call.

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