



May 6, 2020

## **Paycheck Protection Program: Preparing for Your Loan Forgiveness Application**

Thank you for choosing Skyline National Bank to process and service your Paycheck Protection Program (PPP) loan. We are proud to be able to assist you and our community during this difficult time.

Obtaining the loan is just the first step. While there remain some outstanding questions when it comes to the process of loan forgiveness, we wanted to reach out early to assist you in preparing your application for forgiveness and what required documents may be applicable. As the PPP dictates, loan amounts may be forgiven as long as:

- The loan proceeds are used to cover payroll costs, and most mortgage interest, rent and utility costs over the 8-week period after the loan is made; and
- Employee and compensation levels are maintained as designated by the program.

Payroll costs are capped at \$100,000 on an annualized basis for each employee. Additionally, not more than 25% of the forgiven amount may be for non-payroll costs.

Funds from your PPP loan can be used for the following purposes:

- Payroll— Salaries, wages, vacation, parental, family, medical, or sick leave, health benefits and retirement plan contributions.
- Mortgage interest— Interest on mortgages signed before February 15, 2020.
- Rent— Rent on lease agreements in effect before February 15, 2020.
- Utilities— Payments for services that began before February 15, 2020.

All expenses falling under these categories are eligible for loan forgiveness. But you must begin preparing now for your loan forgiveness application. The following is a general breakdown of how you can begin this process during your 8-week period.

□ **8-Weeks of Coverage**

- Eligible expenses are only those incurred during your 8-week period, which starts the date Skyline National Bank made your first disbursement of the loan.
- Consider your payroll schedule. You may want to adjust the timing of your payroll date to accommodate as many payroll cycles as possible.

□ **The 75%/25% Rule**

- At least 75% of your PPP loan funds must be used for payroll costs.
- No more than 25% of your PPP funds can be used for non-payroll purposes.
- Payments to independent contractors are not included in your payroll costs.
- Remember! The following payroll costs are not eligible for loan forgiveness but you should be keeping track of these:
  - Payments to an independent contractor
  - Cash compensation in excess of \$100,000
  - The employer's share of federal payroll taxes

- Qualified sick leave and qualified parental leave wages for which credit is allowed under the Families First Coronavirus Response Act (FFCRA)
- **Review your staffing requirements**
  - To receive your highest loan forgiveness, you must maintain the number of employees on your payroll.
  - If you are Self-Employed:
    - 8-weeks of your 2019 net profit will be eligible for loan forgiveness.
    - Mortgage interest, rent and/or utilities expenses must have been claimed or are entitled to be claimed as a deduction on your 2019 Form 1040 Schedule C to qualify for loan forgiveness.
- **Keep a thorough, running list of all documentation to be submitted by you to Skyline National Bank for a complete loan forgiveness application. Items may include the following:**
  - Documents verifying the number of full-time equivalent employees on payroll and their pay rates, for the periods used to verify you met the staffing and pay requirements:
    - Payroll reports from your payroll provider,
    - Payroll tax filings (Form 941),
    - Income, payroll, and unemployment insurance filings from your state,
    - Documents verifying any retirement and health insurance contributions.
  - Documents verifying eligible interest, rent, and utility payments (mortgage and lease agreements, utility bills, canceled checks, payment receipts, account statements).

A successful forgiveness application is going to require good recordkeeping and bookkeeping in order to maximize your loan forgiveness amount. Keep diligent track of all eligible expenses and their accompanying documentation for this 8-week period. As we near the forgiveness period, Skyline National Bank will be contacting you with additional information on how to submit your forgiveness application. It is recommended that you consult with your tax advisor, legal counsel, or a bookkeeping service to assist your business if necessary.

Any outstanding balance not forgiven will continue to accrue interest at 1% for the remainder of your 2-year loan term period. Generally, there is no prepayment penalty and you can pay off that outstanding balance at any time with no additional fees.

For additional information, please refer to the U.S. Department of the Treasury’s “CARES Act Assistance for Small Businesses” webpage here: <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>. Additional guidance is anticipated from the Treasury and the U.S. Small Business Administration in the coming weeks.

Skyline National Bank is here to assist you with your PPP loan should you have any other questions.

*Always Our Best*

# Paycheck Protection Program Loan Forgiveness Frequently Asked Questions

## What expenses can be paid with the loan proceeds?

Loan proceeds used for the following expenses will be eligible for forgiveness:

**At Least 75% for Payroll Costs** - Payroll costs consist of salaries, wages, vacation, parental, family, medical, or sick leave, health benefits and retirement plan contributions. Salary and wages, but not benefits, is limited to \$100,000 per employee. Payments to independent contractors **cannot** be included in payroll costs.

**Mortgage Interest** - Interest on mortgages signed before February 15, 2020. Interest payments on any other debt obligations incurred before February 15, 2020 also qualify. Principal and prepayments do **NOT** qualify.

**Rent** - Rent on lease agreements in effect before February 15, 2020.

**Utilities** - Payments for services that began before February 15, 2020.

## How do I apply for loan forgiveness?

Borrowers can apply for loan forgiveness eight or more weeks after receiving loan proceeds by submitting all relevant paperwork. We will provide you with instructions on how to apply for loan forgiveness before the eight-week period ends.

## When does the eight-week period begin?

Once you receive the loan proceeds, the eight-week period begins. You must use the entire loan amount during the eight-week period for the “approved” costs to be eligible for loan forgiveness. You will need documentation to support the expenses.

## What is the 75/25 rule?

At least 75% of the loan proceeds must be used for payroll costs. Not more than 25% may be used for rent, utilities, and interest.

## Are there staffing requirements?

Yes. Your full-time equivalent employee count must be the same as, or more than, your test period. Your test period can be either February 15, 2019 through June 30, 2019 or January 1, 2020 through February 29, 2020. The calculation is based on monthly averages.

## Can I rehire employees that were laid-off or furloughed prior to receiving loan proceeds?

Yes. You are encouraged to bring those furloughed employees or replacement workers back on payroll as quickly as possible to meet your FTE calculation. Also, there is no requirement for furloughed workers to actually be working.

## What if I offer to rehire a laid off or furloughed employee and the employee declines the offer?

The SBA and Treasury intend to issue guidance excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the forgiveness reduction calculation. The guidance is expected to specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee’s rejection of that offer must be documented by the borrower.

## Are there pay requirements?

Yes. Employees that annually earn less than \$100,000 must continue to be paid at least 75% of their normal earnings.

# Paycheck Protection Program Loan Forgiveness Frequently Asked Questions

## What is the rehiring grace period?

You have until June 30 to rehire any staff that were laid off or put on furlough and reinstate any pay that was decreased by more than 25% to continue to meet the requirements of the forgiveness.

## What documentation should a small business keep to be eligible for forgiveness?

Documents verifying the number of full-time equivalent employees on payroll and their pay rates, for the periods used to verify you met the staffing and pay requirements:

- Payroll reports from your payroll provider,
- Payroll tax filings (Form 941),
- Income, payroll, and unemployment insurance filings from your state,
- Documents verifying any retirement and health insurance contributions.

Documents verifying eligible interest, rent, and utility payments (mortgage and lease agreements, utility bills, canceled checks, payment receipts, account statements).

## What qualifies as payroll costs for an independent contractor or sole proprietor?

Payroll costs for an independent contractor or sole proprietor are wages, commissions, income, or net earnings from self-employment or similar compensation. These costs are limited to \$100,000 per person.

## I am self-employed. What documentation should I keep for my loan to be forgiven?

As of May 6, 2020, the SBA has not provided specific guidance for documentation for self-employed loan proceeds recipients. Please follow the SBA's and our website as they release new guidance and discuss with your tax advisor.

## Will loan forgiveness be taxable by the IRS?

No. However, state tax laws may be different. Discuss with your tax advisor.

## What happens if I am not approved for forgiveness?

Proceeds that are not used during the period or spent for unauthorized purposes will not be forgiven. These funds must be repaid over a two-year period at 1% interest. A six-month deferral from the date you receive your funds is allowed.

There is no prepayment penalty. You can pay off the outstanding balance at any time with no additional fees.

## Should I keep a separate bank account for my loan proceeds?

It may be beneficial to open a separate account to track your expenses but it is not required.

## Can I use the loan proceeds to prepay my rent or mortgage?

No. Prepayment is not an allowed use of loan proceeds and will not be eligible for forgiveness.

## What happens if I intentionally use my loan proceeds for ineligible expenses?

If you knowingly use loan proceeds for unauthorized purposes, you will be subject to additional liability such as charges for fraud.