1. “Payroll costs”;
2. Any payment of interest on any covered mortgage obligation (which shall not include any prepayment of or payment of principal on a covered mortgage obligation);
3. Any payment on any covered rent obligation; and
4. Any covered utility payment.

If these debts look familiar, it’s because they are – these are the debts the covered loan can be used towards as mentioned above. Notably, however, excluded from forgiveness is payment towards interest on any other debt obligation that were incurred before the covered period. As a result, you need to remain cognizant of these payments from the covered loan, because you will owe the lender for these amounts. In addition, you will also notice that forgiveness is only allowed for the sum of the actual costs incurred and payments made. Put differently, if you do not use the entirety of the loan towards the costs enumerated in this section, you will owe the lender the balance of the covered loan.

Furthermore, a covered mortgage obligation must have been incurred prior to February 15, 2020 to be eligible for loan forgiveness – the same principle applies to rent (i.e., the leasing agreement must be in force prior to February 15, 2020). Moreover, and importantly, “covered period”, as used in this section regarding forgiveness, means the 8-week period beginning on the date of the origination of a covered loan. Thus, you will only receive loan forgiveness for the enumerated costs for 8 weeks following the date of origination.

In addition, as if Congress could not make the loan forgiveness program any more complex, it has managed to do so by requiring a reduction of the amount forgiven if the average number of full-time employees during the covered period was less than either the average number of full-time employees per month during the period beginning on February 15, 2019 and ending on June 30, 2019, or the average number of full-time employees per month employed during the period beginning on January 1, 2020 and ending on February 29, 2020. To calculate the number of these employees, the employer must average the number of full-time employees for each pay period falling within a month.

Once the average amount of employees has been calculated, and if there was indeed a reduction in the number of average employees during the covered period, the employer must reduce the amount that the loan can be forgiven by multiplying the amount of costs (enumerated in bullet-points 1-4 in this section) by the quotient received from dividing the average amount of employees during the covered period by the average number of employees during either the February 15, 2019 through June 30, 2019 period or the January 1, 2020 through February 29, 2020 period.

As a simple example, let’s assume the average number of full-time employees during the covered period was 8 while the average number of full-time employees per month during the February 15, 2019 through June 30, 2019 period was 9 and the average number of full-time employees per month for the January 1, 2020 through February 29, 2020 period was 10. Let’s also assume the permissible costs totaled $1,000,000.00. To receive the most out of loan forgiveness, you will want to use the average number of full-time employees per month from February 15, 2019 through

June 30, 2019 period, which is 9, because the quotient is greater after you divide 8 (full-time employees in the covered period) by 9 – the quotient is .887 – than the quotient after dividing the average number of full-time employees during the covered period by those in the February 15, 2019 through June 30, 2019 – this quotient is .8 (8 divided by 10).

By using the .887 quotient, you can have $887,000.00 forgiven (multiply the permissible costs equaling $1,000,000.00 by the quotient of .887), whereas the quotient of .8 would only permit you to have $800,000.00 forgiven (again, multiply the permissible costs by the quotient). As you can see, the additional amount that can be forgiven by using one quotient over the other is $87,000.00! Thus, it is necessary to choose the correct period to come to a quotient because the amount of savings (i.e., amount of the loan that can be forgiven) will change.

In addition to the foregoing reduction, the amount of the covered loan that can be forgiven will be reduced further by the amount of any reduction in total salary or wages of any employee during the covered period that is in excess of 25 percent of the total salary or wages of the employee during the most recent full quarter during which the employee was employed before the covered period. An employee for purposes here includes anyone who did not receive, during any single pay period in 2019, wages or salary at an annualized rate of pay in an amount more than $100,000.00.

Does Any Paperwork Need to be Completed to Receive Forgiveness on my Covered Loan?
Yes, you need to submit documentation to your lender verifying the number of full-time equivalent employees on payroll and pay rates for the periods described in the section directly above. The documentation needs to include payroll tax filings reported to the IRS; and State income, payroll, and unemployment insurance filings.

In addition, you need to provide documentation regarding canceled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments. Finally, a representative of the eligible recipient needs to certify that the documentation presented is true and correct and that the amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments.

What Happens If I Do Not Provide the Necessary Documentation to the Lender?
Simply put, if you do not provide the necessary documentation, you will not receive loan forgiveness. As a result, it is vital to document every expense that is used in calculating the amount for your loan forgiveness.

If Any Part of My Covered Loan Is Forgiven, Will It Count as Income Come Tax Time?
No, the amount of the covered loan that is forgiven will not count as income.

Conclusion
As an organization, it is necessary to apply for the Paycheck Protection Program loan immediately. To remain afloat, you may need this type of assistance; plus, since this loan can be forgiven to certain extents without counting as income, it is free money that you should otherwise take advantage of. Remember, however, if you do not apply soon enough, you may miss out on the opportunity to remain in business well after this national crisis ends because you did not receive the necessary support during it.