How to organize payroll for SBA loan forgiveness

By **Myranda Mondry** April 4, 2020

The Paycheck Protection Program (PPP) provides small businesses with low-interest loans up to $10 million to be used for payroll, rent, mortgage interest, or utilities. These loans help small business owners keep their employees on the payroll and rehire employees they've laid off due to the COVID-19.

Business owners using PPP funds to keep employees on the payroll and maintain wages may not be required to repay their loans if certain criteria are met. But if you're not organizing your payroll costs correctly, you may find it harder to prove how you spent your loan.

Here are a few things to account for, as you organize payroll to help meet requirements for the Paycheck Protection Program loan forgiveness.

Included and excluded payroll costs

PPP loan amounts are calculated using your average monthly payroll costs. However, certain payroll costs are excluded from this calculation and will not be considered for loan forgiveness. So it's important to know the difference between included and excluded payroll costs.

Included payroll costs:

- Employee salaries, wages, or commissions
- Payment of cash tips or equivalent
- Paid parental, family, medical, or sick leave
- Paid time off
- Allowance for dismissal
- Group healthcare benefits and insurance premiums
- Retirement benefits
- State and local taxes
- Gross Payroll (including federal withholding and employee FICA)*

Excluded payroll costs:

- Income over $100,000 per year for sole proprietors, independent contractors, and self-employed workers
- Individual employee compensation over $100,000 per year
- Compensation for employees who live outside the U.S.
- Qualified sick leave under the Families First Coronavirus Response Act
  For a comprehensive list of included and excluded costs, please visit the SBA.gov website.
  * Neither the CARES Act nor recent guidance instructs the PPP applicant to exclude federal withholding and employee FICA for the period.

Calculate average monthly payroll costs

Subtract the sum of your excluded payroll costs from your total payroll costs to calculate your average monthly payroll costs. Your lender may calculate your maximum loan amount by multiplying your average monthly payroll costs in 2019 by 2.5. If your business was not operational in 2019, your lender may calculate your maximum loan amount using your average monthly payroll costs in January and February 2020.

Requirements for Paycheck Protection Program loan forgiveness

Loans issued through the PPP may be forgivable if certain criteria are met, including:

- Borrowers use the majority of the funds for payroll costs—at least 75% of the forgivable amount
- Borrowers maintain the same number of employees on the payroll
- Borrowers maintain employee salary levels
- Borrowers rehire and restore wages to employees who were laid off between February 15 and April 26, 2020, due to the coronavirus, by June 30, 2020

The total forgivable amount may be reduced if borrowers:

- Reduce the number of employees on the payroll
- Reduce employee wages by 25% or more within eight weeks after loan origination

4 tips for organizing payroll for loan forgiveness

1. Gather the payroll documents you'll need

Borrowers can apply for loan forgiveness through their lender. They'll need to verify the number of employees on the payroll and their pay rates, starting from the date of the loan origination.

Documents needed for loan forgiveness include, but may not be limited to:

- Payroll expense verification documents
- Payroll summary reports with corresponding bank statements

- Breakdowns of payroll benefits including paid time off, group healthcare benefits, and retirement benefits
- Quarterly federal tax returns (IRS Form 941)
- Annual federal unemployment tax returns (IRS Form 940)

2. Record employee wages and time worked accurately

Recording employee wages accurately can help you reduce the risk of errors that could compromise your eligibility for loan forgiveness. As you spend your loan, track and organize payroll costs daily. And keeping employee timesheets of hours worked can help you verify that you've paid each employee accurately and haven't reduced pay or hours.

3. Track all paid time off

Employee paid time off (including vacation pay, sick leave, paternal leave, and family leave) is included in your PPP payroll costs. So, it may be eligible for loan forgiveness. You need to know exactly how much you're spending in these categories.
Record employee paid time off by employee and PTO type. Remember, family leave covered by the Families First Coronavirus Response Act is not included in eligible PPP costs. Record this type of leave separately.

4. Manage a separate payroll bank account

Managing a separate bank account for payroll purposes can help you keep track of payroll-related transactions. You'll always know how much you're spending on payroll costs and can verify those figures later.
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The resources described above are made available to businesses within the United States of America.
COVID-19 relief programs are evolving regularly. Please visit [SBA.gov](SBA.gov) for the most up to date information.