

Best Practices for Maximizing Payroll Protection Program Loan Forgiveness

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Please Note: The following information is meant as general guidance about PPP Loan forgiveness based on the best available information currently available. The Virginia Synod is not an expert in accounting or in SBA Loans. If you have specific questions about your situation, please contact the bank handling your PPP Loan or a CPA for guidance.

Now that Payroll Protection Program Loans are being funded, many congregations are looking for guidance on how to maximize the forgiveness of these loans. To date, the SBA has not released a loan forgiveness application, nor has it issued guidance on numerous questions about the program. Based on the information currently available, here are some suggestions for maximizing loan forgiveness.

Accounting for the Funds

Best Practices

- Establish a separate bank account for the PPP Loan Funds
- Draw funds down as you have allowable, and most likely, forgivable expenses
- Spend allowable expenses from your account first and then transfer in fund from the PPP Loan account to reimburse
- Keep source documents for all allowable expenses that you plan to reimburse from the PPP Loan account
- Create and maintain a packet of substantiating paperwork for each fund transfer

Use of Funds

To maximize forgiveness, the PPP Loan recipient must:

- Use a minimum of 75% of the PPP loan on payroll and benefits as defined by the program
- Use no more than 25% of the PPP loan on facility related expenses as defined by the program
- You have 8 weeks (56 days) from the time you receive funding to use the funds toward allowable costs

Forgivable Expenses

- Salary, wages, and similar compensation, including housing allowance
- Vacation
- Employer payments to health care benefits
- Employer contributions to retirement accounts
- Rent for an existing lease
- Mortgage Interest
- Office equipment leases
- Utilities, including power, water, internet, landline, trash
- Reimbursements for staff expenses (like cell phones) assuming the practice pre-dates the PPP Loan and that the reimbursement falls within the covered period

Non-Forgivable Expenses

- Employer contribution to FICA
- Payments to 1099 workers
- Property and Liability Insurance
- Worker's Comp Insurance
- Prepayment for expenses that haven't occurred or expenses that are past due
- Any expenses incurred prior to the reception of the PPP loan
- Any other expenses not outlined as qualifying expenses under the Payroll Protection Program

Are we allowed to pay people who are not doing or able to do the work they usually do?

Yes, the goal of the PPP Loan is to prevent unemployment so you can pay people who are not doing or able to do their usual work. Some congregations are creating other ministry related activities for these employees to do to respond to the needs of the community or the congregation. For example, employees might support a local feeding program, assist in caring conversations, organize materials and files, or undertake deferred maintenance.

Note on Good Faith Certification of Need

With the second round of stimulus funding, the SBA issued additional guidance on making a good faith certification that the PPP Loan is necessary. Some congregations have asked if they still qualify. In general, it appears that most non-profits will be considered eligible because of financial uncertainty. Even if you have unrestricted cash reserves, few congregations have a three month cash reserve (minimum), six month reserve (recommended) and one year operating reserve (reasonable) or access to a line of credit to manage an extended period without meeting in-person.

Considering documenting the following in case your bank has questions.

- Policies (formal or informal) around reserve funds
- Conversations in Council about potential cash flow management strategies for the length of the COVID-19 crisis
- Changes in giving patterns since mid-March
- Information of donor restricted funds that are not available for general use

Awaiting Guidance from the SBA

1. How will the SBA determine the headcount congregations are required to maintain? Will the SBA use a form of Full-Time Equivalencies (FTEs) or total number of employees?
2. The 56 day clock for using your funds starts on the day you receive your PPP loan. Funds from the PPP Loan are supposed to be used for expenses incurred during the loan period. If you receive your loan on the 14th and your payroll is on the 15th, is the payroll paid on the 15th forgivable?

For more in-depth discussion on these topics, go to:

<https://www.capincrouse.com/category/display-as-resource/covid19-resources/>

<https://www.churchlawandtax.com/web/2020/april/navigating-next-steps-with-paycheck-protection-program-loan.html>

<https://horizons.net/covid-19-resources/>

<https://insidecharity.org/2020/05/07/nonprofit-ppp-loan-forgiveness-update/>