

Paycheck Protection Program – Latest Interim Final Rules Clarify Loan Forgiveness

On June 11 and 12, 2020, the SBA and Treasury issued two additional Interim Final Rules revising the First Interim Final Rule about the Paycheck Protection Program (“PPP”) under The CARES Act. Most of the information provided in these new Rules reflect the changes made from the Paycheck Protection Program Flexibility Act that became law on June 4, 2020. See our article about the [Paycheck Protection Program Flexibility Act](#) for details about this Act and its changes to the PPP.

The June 11 Interim Final Rule, however, makes some new and important clarifications about loan forgiveness. Under the PPP Flexibility Act, a borrower must use at least 60% of the loan on payroll costs and may use up to 40% on other specified costs (rent, utilities and interest). The Rule explains that if a borrower doesn’t spend at least 60% on payroll costs, then a portion of the loan won’t be forgiven. There was some question as to whether none of the loan would be forgiven if that threshold was not met, and that is not the case.

The June 11 Intern Final Rule further explains how to determine what portion of the loan will be forgiven if the 60% threshold is not met. If a borrower does not spend 60% of the loan on payroll costs, then whatever portion of that 60% was spent on payroll costs will be forgiven and the rest will be converted to a loan at 1% interest. For the “up to 40%” of the loan that is used on other specified costs, the same proportion of the 60% that is forgivable vs. not forgivable will be applied to the 40% as well. The portion that is not forgivable will be converted to a loan at 1% interest.

For example, Borrower A:

- Receives \$100,000 PPP payment
 - For full forgiveness, must spend at least 60% on payroll costs (\$60,000)
 - Up to 40% (\$40,000) may be spent on other specified costs
- Borrower A only spends \$54,000 on payroll costs
 - $54,000/60,000 = 90\%$ of required amount spent on payroll
- This 90% is ALSO applied to the 40% for other specified costs
 - $90\% \times \$40,000 = \$36,000$
- Total maximum loan forgiveness is $\$54,000 + \$36,000 = \$90,000$
 - \$10,000 will be converted to a loan at 1% interest.

Thus, the amount a borrower spends on payroll will affect the amount of forgiveness for both payroll costs and other specified costs.

For additional information about PPP, see our articles:

- [How to Get Loans Under the CARES Act: The Paycheck Protection Program](#)
- [Paycheck Protection Program Loan Applications Open Today – How to Calculate Payroll Costs](#)
- [Loan Forgiveness under Paycheck Protection Program](#)
- [SBA Releases PPP Loan Forgiveness Application – Major Changes in Loan Forgiveness!](#)
- [New Paycheck Protection Program \(“PPP”\) Flexibility Act – Changes PPP Requirements](#)