

# Tracking Tips for Small Business Owners that Received PPP funds

While the process of calculating and applying for forgiveness of PPP debt is not yet clear, the PPP stipulates that loan proceeds must be used within eight weeks of being received. Businesses should immediately start tracking and gathering data to

- i. maximize the forgiveness through the appropriate usage of the funds, and
- ii. prepare to deliver to their lender the necessary documentation at the end of the eight week period.

## Points To Know About PPP

- Funds must be spent within eight weeks from the date received.
- Once an application is submitted, the business cannot delay receiving funds and the term of spending. For example, if a business has a seasonal business and submitted an application too soon.
- An application must be submitted for loan forgiveness.
- Funds not spent are considered the unforgiven portion of the loan. This amount has to be repaid.
- There is no federal tax liability on the forgiven loan. A determination is not known in regard to state tax liability.
- Can a business rehire new employees instead of bringing back staff that has been laid off? This has not been determined.

Even if you have not received a loan, it's important to track the cost of coronavirus for your business. Set up a line item in your accounting system to track the cost of coronavirus. This would include supplies for cleaning/maintenance, time spent (such as planning for remote work), IT costs, etc. In the future, if you apply for a loan or sell your business, there is going to be a "blip" in your history. By having this breakout, the financials can be easily recast to reflect business as it would have been without the virus.

### As a borrower, your eligibility for the forgiveness of your PPP loan may be reduced if:

- Less than 75% of PPP funds are spent on payroll costs;
- A borrower employs fewer full-time equivalent (FTE) employees than it did during the base period, which can be either February 15, 2019 through June 30, 2019, or January 1, 2020 through February 29, 2020;
- The salary or wages of an employee are less than 75% compared to the prior quarter; and,
- The reduction in number of employees and/or compensation isn't cured by June 30, 2020.
- It's important to note that the statute refers to costs incurred and amounts paid during the 8 week covered period. Currently, there is no guidance as to what "costs

incurred” means, so borrowers should be diligent in tracking what their payments made during the covered period relate to.

### **Eligible expenditures incurred and paid during the covered period include:**

- Payroll Costs up to \$15,385 per individual ( $\$100,000 \times 8/52$ ) plus the following covered benefits for employees (we are waiting for more guidance on the inclusion of covered benefits paid on behalf of owners)
- Health care expenses
- Retirement contributions
- State taxes imposed such as unemployment insurance premiums
- Active partners/LLC members may be included subject to the \$100,000 limitation (i.e. \$15,385 each)
- Interest on a mortgage in existence before 2/15/20
- Rent on a lease in force before 2/15/20
  - We are waiting for further guidance on if this is just real estate rent or if it also includes equipment rentals
  - We are waiting for further guidance on self-rentals
- Utilities for which service began before 2/15/20 – includes electricity, gas, water, telephone, Internet access, transportation
  - The statute uses the word transportation without further elaboration
  - The SBA has not given further guidance as to what is included in transportation
- Borrowers can use the money to pay interest on any other debt obligations that were incurred before 2/15/20 but those expenditures will not be included in the forgiveness amount

### **Key Insights:**

- Companies that received Paycheck Protection Program (PPP) loans will need to justify how they spent those funds in order to receive the forgiveness portion of the loan.
- Efficient tracking systems will allow this justification to be easy and painless.
- Detailed records and communication with lenders will help small businesses meet the eligibility requirements for loan forgiveness.

**Communicate with your lender ahead of time so you are prepared.** While the lending institutions are generally allowing drawdowns on the PPP loan without significant documentation, detailed records will be important to support the loan amount to be forgiven. Keep the documentation organized electronically in a secure location on your server so you can adapt to your lender’s specific requirements. In June or July, the goal should be to have all the documentation at your fingertips to help make it easier for you to substantiate and maximize your loan forgiveness.

## Three Options for Tracking:

1. Set up a new bank account specific for Paycheck Protection Program funds. (Some banks are not opening new accounts at this time.)

**New Bank Account.** You can pay allowed expenses directly from the new account, or use it to fund other operating accounts set up for automatic withdrawals or other payments. Without guidance indicating otherwise, it is not suggested that you change those automatic withdrawals or payments to be made from the new account, since the account is intended only for the short-term management of the PPP funds.

While the account will help you track *how much* of funds are used, it is also important to track *how* funds are used. This may be difficult when using the new bank account alone, given the limited level of detail that can accompany the transactions. Consider employing a general ledger account or manual spreadsheet in conjunction with the bank account.

2. Create a general ledger cash account that is specific to the Paycheck Protection Program funds and utilization.

**General Ledger Account.** If you choose to create a general ledger cash account, do so by creating a new PPP-specific cash account or subaccount, whichever works best based on your accounting system. Use the cash in this account to either directly pay the qualifying disbursements or fund your primary cash account to make the disbursements. This is similar to using a new bank account, except your accounting software likely allows you to enter more transaction detail.

The benefit of a general ledger account is that it maintains all documentation in your accounting system and reduces the possibility of manual errors. In addition, you can use your accounting system's reporting functions. The downside is that additional guidance could change the way you use your funds, and these changes may be difficult to incorporate into your accounting system. For example, you may need to reverse transactions instead of deleting them. As well, your bank reconciliations could be more complicated until your PPP funds are depleted.

3. Manually track Paycheck Protection Program fund utilization using a spreadsheet (such as Microsoft Excel).

**Manual Spreadsheet.** To track fund utilization using a spreadsheet, enter your loan proceeds balance and subtract each qualifying disbursement. Be sure to include details about the disbursements in the spreadsheet, so that you are tracking both how and how much of the funds are being used.

The benefit of using a spreadsheet is that, as more guidance is provided, you can make adjustments easily, adding or deleting expenses. There is also no limit of the amount of information you can include in a spreadsheet, allowing you to keep as

much detail as you want regarding the expenses. You can also use a formula to track how much of your fund utilization is for payroll and how much to cover non-payroll costs. The downside of this method is that it is manual, which is time-consuming and potentially inefficient, subject to human error, and does not integrate with your accounting system which leaves you with limited reporting functionality.

**Other Record-keeping for Forgiveness.** In addition to tracking, loan recipients seeking forgiveness must have documentation proving loan funds are used as specified by the law. Section 1106 of the CARES Act states that loan recipients seeking forgiveness must submit documentation including:

- Verification of full-time equivalent employees on payroll and pay rates
- Payroll tax filings reported to the IRS
- State income, payroll, and unemployment insurance filings
- Cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments for covered mortgage obligations, lease obligations, and utilities

## How to Document Qualifying Expenses:

### Payroll Costs:

- If you use an outside payroll processing company, save a payroll report reflecting gross wages paid for each payroll incurred during the period.
  - Consider contacting your payroll provider to change the bank account from which your payroll costs are funded. Certain payroll costs, such as employer payroll taxes and compensation above an annualized \$100,000, are not allowable payroll costs under the PPP.
  - - Determine a process for transferring funds from the bank account that holds PPP loan proceeds to the company payroll bank account, or operating bank account, to cover the allowable costs. This will allow the business to track the funds that must be spent over the 8 week period.
- If you process payroll internally, use the pages of the payroll report that reflect total gross wages paid.
- Separate the employees (including owners taking a salary) who are paid more than \$100,000 annually, or \$15,385 during the eight-week period, as qualified gross payroll is limited to that amount per employee.
  - Compute the average full time employee count during the base period as defined above. Keep in mind that the amount of the loan that will be eligible for forgiveness will be based on maintaining a headcount of at least this number.
  - Create a separate analysis listing the salary of current employees as of the first quarter of 2020. Then, list each employee's current salary payable utilizing the PPP funds. The current salary must be at least 75% of the salary paid in the first quarter. Employees making more than \$100,000 are excluded from this computation.

- Expand on the above analysis by tracking the amount paid in gross payroll to the employee over the 8 week period. For those employees with an annual salary of over \$100,000, track the gross payroll to an annualized salary of \$100,000.
- Document other costs under the definition of “payroll costs” in the CARES Act (employer contributions to health, dental, vision, FSA, HRA, and retirement plans). Collect invoices, statements, payment advices, evidence of automatic bank debits, etc., to validate these costs.
  - Other payroll costs such as health benefits paid and retirement benefits paid are allowable payroll costs under the PPP. Be sure to pay these costs within the 8 week period. We are waiting for more guidance on the inclusion of health and retirement benefits paid on behalf of owners.
- For state and local taxes, such as unemployment taxes, the same payroll reports as above should be adequate.
- Keep an electronic copy of your bank statement and agree the amounts from payroll reports, invoices, etc., to the entries on the statement.
- In some cases, you may want to use Federal Form 940 or 941 and summarize the portion of the amount on the form that was actually paid during the eight-week period
- As the 8 week window to spend the funds draws near, evaluate your remaining funds and consider whether a special payroll should be issued to capture 8 full weeks of payroll and maximize the usage of your PPP funds.
- *Employee headcount* — Keep track of hours worked for hourly employees. Maintain copies of timecards or pull a report from an electronic timekeeping system. The hours should be tracked by week for the eight-week period.
  - Capture any new employees hired, regardless of whether they are hourly or salaried. Forms W-4 may be required as supporting documentation for the new hires.
- *Comparing wages* — If you have reduced the wages for any of your employees from what they were in the period prior to February 15, you must track those changes, as they could limit the forgiveness amount. Consider using the same spreadsheet you are using to track payroll costs by week to document these changes. The reductions should be supported by a comparison of a payroll report from the period prior to February 15, and from a pay period within the eight-week period of qualifying expenses.

### ***Other Qualifying Expenses:***

- These expenses will likely be limited to 25% of the PPP loan amount.
- Use invoices, statements, payment advices, etc., to validate the costs for rent, utilities, and mortgage interest.

- Some banks may require copies of rent, lease, and mortgage loan agreements to validate commitments that were in place prior to February 15, 2020.
- If you have canceled checks that agree to the invoices, make copies and use for documentation alongside the invoice.
- Keep an electronic copy of your bank statement and agree the amounts from invoices, etc., to the entries on the statement.

## Steps to Setting up Tracking Using QuickBooks Online:

### 1. Setup the PPP Loan Account on the Chart of Accounts

- This loan is a liability until it is determined how much of the loan will be forgiven.
- It's recommended the account be a "Long Term Liability."

### 2. Create the PPP Bank Account.

- It might not be possible to open a new bank account in a timely manner at this time. However, it's important to create a separate bank account on the books to capture the PPP Loan and Expenses activity.
- Name the account "PPP Bank."

### 3. Record the PPP Loan Income.

- Setup the Loan Vendor. If your lending institution is already a vendor, consider setting up the same vendor but with an extension such as "(Lending Institution) – PPP loan."
- Deposit the Loan Funds

### 4. Record Expenses.

- Use the regular Business Checking to pay expenses as normal.
- After payment, reimburse the Business Checking from the PPP Bank Account via the "Write Check" function.
- Do not combine payments and always include proper descriptions in the memo fields.
- Add attachments when available.

### 5. Create Reports.

- This method keeps a clean trail of PPP Income & Expenses, but will not show spending for the new PPP Bank by expense type.
- To obtain a spending report, you must create a custom report, but you might end up transposing this data to Excel for loan reporting purposes.

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