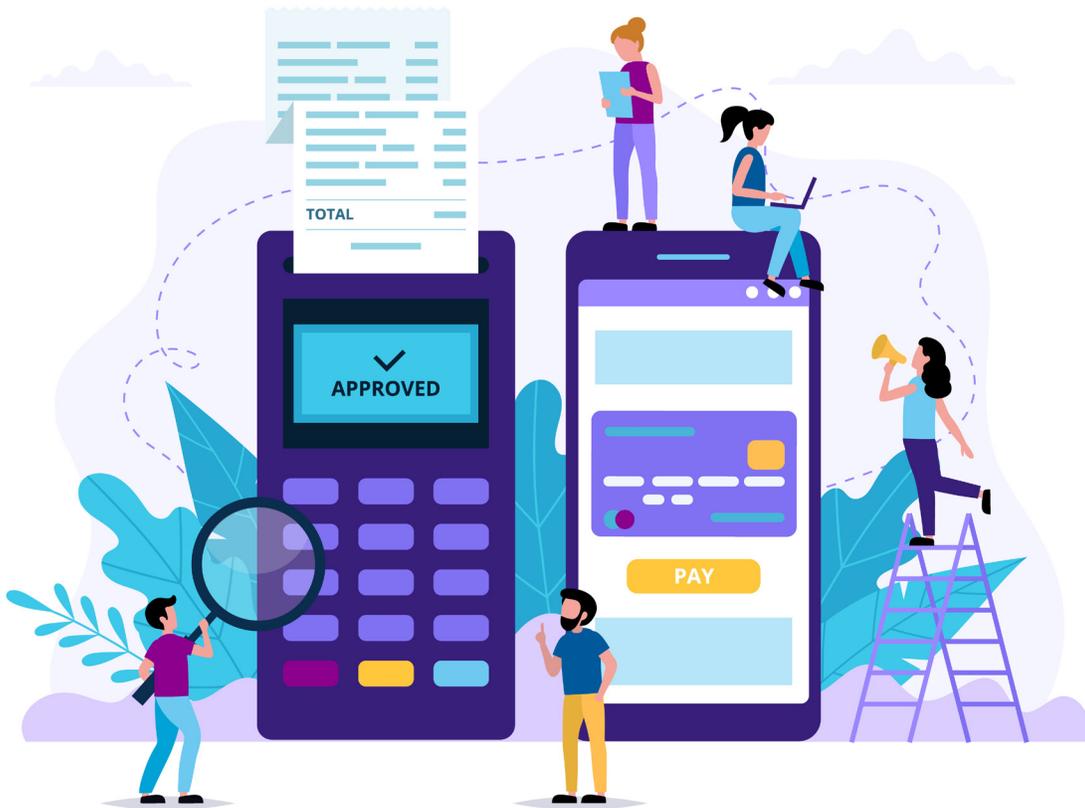




# Paycheck Protection Program: Loan Forgiveness Rules and Tips



Advisory for a Digital Era

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## If you have received your loan, congratulations!

If you *have not received* your loan and are having trouble with your current bank, please [visit our website](#) for a list of other loan providers, including Lendio, Fundera and Kabbage. We have heard positive feedback from companies using these companies as part of the PPP loan process.

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## Paycheck Protection Program Loan Rules



Borrowers (you) are eligible for loan forgiveness equal to the amount you spent during the 8 week loan period, ***beginning on the date the lender disbursed the loan to you***, not the date you applied for the loan.

### The following items qualify for loan forgiveness:



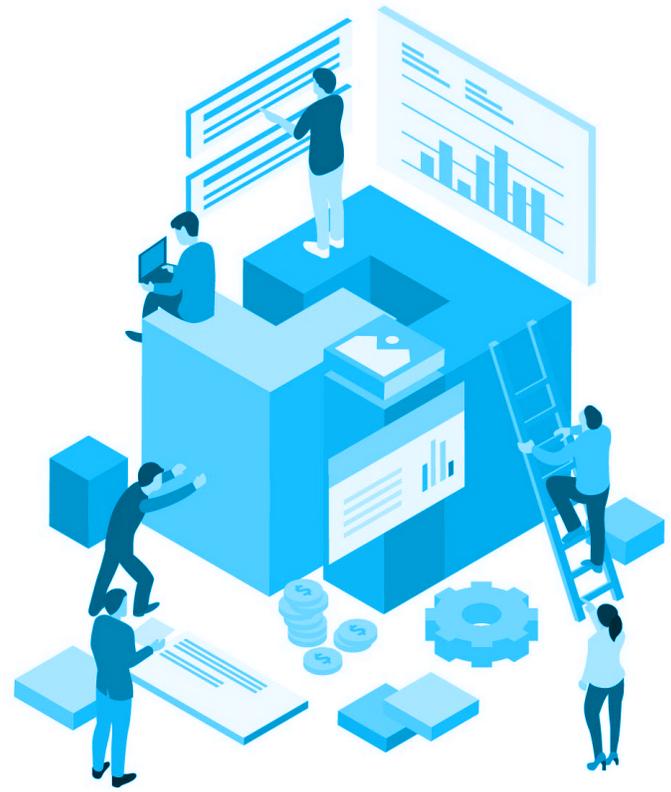
- Payroll costs, including medical insurance and retirements benefits;
  - Interest on mortgages in existence before February 15, 2020;
  - Rent under leases dated before February 15, 2020;
  - Utility costs – including electricity, gas, water, telephone and internet.
- Not more than 25% of the forgiven amount may be for non-payroll costs.
  - For example, your loan was \$100,000. You may not spend more than \$25,000 on rent or utilities during the 8-week period. To be safe, we suggest using 80% or more of your loan on payroll.



## Loan Forgiveness Reminder

In order to have the entire loan amount FORGIVEN (assuming that you have complied with the 75% rule relating to payroll), you must meet these two criteria:

- 1. Headcount Reduction:** The full-time employee headcount during the 8 week period cannot decline from average monthly levels based on two baseline periods: 2/15/19 – 6/30/19 **OR** 1/1/20 – 2/29/20, whichever had fewer FTEs (full time employees). For example, you had 10 FTEs during the period 2/15/19 – 6/30/19 and you had 9 employees during the 8 week period. This is a 10% FTE reduction, so *your loan forgiveness will be reduced by 10%*.
- 2. You cannot reduce salaries or wages**, if you do, the forgiven amount will also be reduced. Employment or wage reductions occurring between February 15, 2020 and April 26, 2020 will not reduce the amount of loan forgiveness, if by June 30, 2020, you eliminate the reduction in employees or reduction in wages.



week period will be taken out of your “PPP loan bank account” vs. operating account.

- We would even suggest creating a separate general ledger account in you Quickbooks or XERO accounting file and call it “PPP Loan Expenses” so you can keep track of these separately. Remember, you will need to prove to your lender how the loan amount was spent.

- When the 8 weeks are complete, you will need to contact your lender and show support on how the funds were spent – keeping track of this early will make the forgiveness process easier

## 8-week Loan Period Considerations

- Loans **MUST** be spent within the 8 week loan period, beginning on the date the loan is disbursed (NOT 2 months – there is a difference).
- Make sure you follow your lenders specific guidelines – each lender will be different
- Consider setting up a separate bank account, move the loan amount to that account and use those funds to pay qualified PPP loan expenses
- Notify your payroll company about the new bank account so funds paid to employees during this 8



Please note that the Paycheck Protection Program is fluid and continues to change daily. The information provided here may be subject to change at a later date.

## Tax Tips

We are working on a comprehensive list of tax changes as a result of the CARES Act. Below are some tips you can consider today:

- **Net operating losses (NOLs)** arising in tax years 2018, 2019, or 2020 may be carried back to each of the five years preceding the taxable year of the loss.
- **Employers can defer the employer's 6.2% portion of the Social Security payroll tax,** effective for wages paid between the date of the enactment and 12/31/2020 – **THIS IS HUGE FROM A CASH FLOW PERSPECTIVE.** Of note: Employers that received a PPP loan *may not* defer the employer's share of Social Security tax after the employer receives a decision from the lender that the loan was forgiven. It may take the lender months before your loan is forgiven so we urge you to take this opportunity and defer these costs. Contact your payroll provider today. The deferred tax is paid 50% on December 31, 2021 and 50% on December 31, 2022.
- **Employee Retention Credit** – you can claim a refundable payroll tax credit for 50% of wages paid to certain employees from the period March 13, 2020 – December 31, 2020. *However, if you have received a PPP Loan, you MAY NO LONGER take this tax credit.*

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## Reminder: Tax Due Date Changes

**FEDERAL DUE DATES:** The federal due date to file and make payments on taxes due for the calendar year ended December 31, 2019, has been extended to July 15, 2020, from the original due date of April 15, 2020.

- This extension to July 15, 2020 is automatic which means you DO NOT need to file FORM 4868 or Form 7004 for the extension.
- In addition, Quarter 1 federal estimated income tax payments are now due July 15, 2020, not April 15, 2020.
- There will be NO calculation of interest, penalties, or additional tax for the period of April 15 through July 15, 2020, for not filing your tax return. The interest and penalties will start accruing on July 16, 2020.
- This extension applies to Individuals, C Corporations, Trusts, Estates, Partnerships, S Corporations where the tax returns were **ORIGINALLY DUE** April 15, 2020. So if your Partnership or S Corporation tax returns were due on March 15, 2020, this automatic extension DOES NOT apply to you.

**STATE DUE DATES:** Illinois has extended the filing and payment deadline to July 15, 2020 for taxpayers filing income tax returns with an original due date of April 15, 2020. The extension is automatic, meaning that you do not need to send in a form to receive the extension.

- Eligible taxpayers include individuals, C Corporations and trust income tax returns and payments originally due April 15, 2020.
- Unfortunately, the automatic extension DOES NOT apply to either the first or second quarter estimated income tax payments due April 15, 2020 and June 15, 2020.

Not in Illinois? Check your state filing due dates as a result of COVID-19: [https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/coronavirus-state-filing-relief.pdf?mod=article\\_inline](https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/coronavirus-state-filing-relief.pdf?mod=article_inline)

# Tax Resources & Help

Have tax questions? We can help. Visit us online or call us at: (847) 234-9000



## CARES Act Updates

Find our COVID-19 tax summary and information for small businesses about the CARES Act Paycheck Protection Loan Program. We have also added information regarding State and Federal tax changes issues by the IRS and the Illinois Department of Revenue. Visit: <https://www.pasquesipartners.com/covid-19-tax-updates/>

## Track Your Refund

<https://sa.www4.irs.gov/irfof/lang/en/irfofgetstatus.jsp>

## PasquesiPartners.com - Q & A

Pasquesi Partners LLC answers your start-up questions on topics such as: Accounting, Business Taxes, Finance, Not for profits, Payroll, Personal Taxes, Sales Tax, and more! Visit: [PasquesiPartners.com](https://PasquesiPartners.com)

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## About Pasquesi Partners, LLC

Our mission is to help individuals and businesses succeed by offering proactive tax planning, funding help, payroll management, and bookkeeping services to help streamline your business. Our firm uses modern, cloud-based accounting software so you can access your financial data anytime. [Pasquesi Partners now provides formal tax planning services to our individual tax clients, please inquire.](#)

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# FOUNDERTAX

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