

Recommendations on Keeping Records to Qualify for SBA PPP Loan Forgiveness*

***Subject to Change and/or Future Official Guidance from SBA**

The Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated \$350 billion to help small businesses keep workers employed amid the pandemic and economic downturn. Known as the Paycheck Protection Program (SBA PPP Loan), the initiative provides 100% federally guaranteed loans to small businesses. **Importantly, these loans may be forgiven if borrowers maintain their employee and compensation levels over the eight-week period following the loan, and provided the uses of the loan proceeds are for "forgivable authorized purposes" as identified herein below.**

Tennessee State Bank (TSB) is thankful to be able to assist you and your small business in obtaining this loan. To continue to help you during the upcoming weeks, the following are TSB's recommendations on how to qualify for loan forgiveness with your SBA PPP Loan. This guidance is not all inclusive and is further subject to further revisions from the Treasury Department and the Small Business Administration which are ongoing.

- ✔ The SBA PPP loan is not a "grant" but a "debt" (loan obligation) that may be forgiven (in part or in whole) if the loan proceeds are spent on specific authorized purposes and workers are maintained. To qualify for forgiveness, spend your SBA PPP loan proceeds during the eight-week period after the date of your loan only on authorized purposes which are forgivable and identified as the following: payroll costs which include group healthcare expenses, retirement contributions and state taxes imposed on employee payroll paid by the employer such as unemployment insurance premiums. Also included are non-payroll costs such as rent, utilities and interest expense {on business debt incurred before 02/15/2020}.
- ✔ For self-employed individuals whom file a Form 1040 Schedule C, the forgivable authorized non payroll cost expenses as noted above will be forgivable to the extent that they were deductible on the borrower's year 2019 Form 1040 Schedule C. Additionally, an owners compensation will be calculated based upon eight weeks of net profit as identified on the borrower's year 2019 Form 1040 Schedule C.
- ✔ During the eight-week period after the date of your loan, you must maintain employee compensation levels and number of employees as stated on your original SBA Loan Application.
- ✔ Your SBA loan is NOT forgivable unless you spend the proceeds for authorized purposes or you do not maintain employee compensation levels and the number of workers stated on your loan application. 75% or more of the loan proceeds must be used for payroll costs with 25% or less used for other authorized purposes.
- ✔ Make payments for payroll costs, rent, utilities, and interest on business debt (incurred before 2/15/2020) from the Tennessee State Bank account where the loan proceeds were deposited; this will assist you in the tracking of your expenses.
- ✔ Maintain evidence of all forgivable authorized expenses and create a written tracking report or spreadsheet itemizing the uses of loan proceeds for the PPP qualifying purposes for submission at the end of the eight-week period.
- ✔ If you do NOT spend all the SBA loan proceeds for authorized purposes as stated in your loan application, please remember that this loan is not a grant. Therefore, it will be required to be repaid what is not forgiven. As such you may utilize any remaining funds as a principal reduction on your PPP loan at the end of the eight-week period.
- ✔ What happens if SBA PPP loan proceeds are misused? If you use PPP funds for unauthorized purposes, SBA will direct you to repay those amounts. If you knowingly use the funds for unauthorized purposes, you will be subject to additional liability such as charges for fraud. If one of your shareholders, members, or partners uses PPP funds for unauthorized purposes, SBA will have recourse against the shareholder, member, or partner for the unauthorized use.

For additional information, please see our website at www.tnstatebank.com and click on the link to the U.S. Department of the Treasury for the various resources in regard to the **Small Business Paycheck Protection Program**. For any additional inquiries, it is recommended that guidance is sought from a tax preparer and/or attorney representing the borrower.

Additional guidance will be forthcoming as to provide details on the process through which forgiveness information is to be submitted to the Bank.