

SBA and Treasury Issue Guidance on PPP Loan Forgiveness

By Mallory Dreyer and Kaleb Nygaard

Original post [here](#).

On [June 8](#), the Treasury and Small Business Administration (SBA) announced greater flexibility for loan forgiveness in a joint press statement on the Paycheck Protection Flexibility Act.

Prior to the passage of the [Paycheck Protection Flexibility Act](#) on June 3, Treasury guidance required borrowers to spend [at least 75%](#) of the loan amount on payroll expenses in order for their loan to be eligible for forgiveness from the federal government. In the Act, Congress set that level at 60%.

Even after Congress passed the Act, potential borrowers expressed concerns about the “[60% cliff](#)” effect: borrowers who spent less than 60% of their loan amount for payroll expenses would receive no forgiveness.

In the June 8 joint press release, the Treasury and SBA loosened the loan forgiveness requirements so that borrowers who use less than 60% of their loan amount on payroll expenses can now receive partial loan forgiveness. Their forgiveness will be calculated such that 60% of the forgiven amount has been used for payroll expenses.

For borrowers that use less than 60% of the loan for eligible payroll expenses, the formula to calculate the total amount eligible for forgiveness is the amount of the loan spent on payroll multiplied by $1\frac{2}{3}$.

The following table provides two example scenarios based on a \$100,000 loan, one which is eligible for full forgiveness and the other which is eligible for partial forgiveness:

	Partial Forgiveness (Less than 60% on payroll)	Full Forgiveness (60% or more on payroll)
Total loan amount	\$100,000	\$100,000
Amount spent on payroll	\$50,000	\$60,000
Amount spent on other eligible expenses	\$50,000	\$40,000
Total amount forgiven	\$83,350 (Calculation: \$50,000 x $1\frac{2}{3}$)	\$100,000

Other eligible expenses include payments of interest on any covered mortgage obligation, payments on any covered rent obligation, and covered utility payments.

The following chart shows the portion of the loan eligible for forgiveness based on the portion spent on eligible payroll expenses.

PPP Loan Forgiveness

