

How can I use my PPP Round 2 Loan Proceeds?

PPP Round 2 (created by The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Act)) expands the types of expenses eligible for loan forgiveness. Here is a summary of all (permitted uses for both Round 1 and Round 2) costs and expenses that PPP proceeds can be used for that are eligible for forgiveness.

Remember that you have two buckets of permitted uses, eligible payroll costs and eligible non-payroll costs. To qualify for full forgiveness your first hurdle is to spend at least 60% of the PPP proceeds on eligible payroll costs, and the other 40% of the proceeds were used on eligible non-payroll costs.

Eligible Payroll Costs

- **Cash Compensation**. Defined as paid or incurred gross salary, gross wages, gross tips, gross commissions, paid leave (vacation, family, medical or sick leave, but not including Families First Coronavirus Response Act leave), and allowances for dismissal or separation. Includes pay to furloughed employees and extra “hazardous” pay. Does not apply to compensation above \$100,000.
- **Health Care Benefits**. These are payments by a borrower for employee health insurance, including employer contributions to a self-insured, employer sponsored group health plan, but excluding any pre-tax or after-tax contributions by employees. This includes group insurance payments made on group life, disability, vision and dental insurance.
- **Retirement Benefits**. Include the total amount paid by a borrower for employer contributions to employee retirement plans but excluding any pre-tax or after-tax contributions by employees.
- **Payroll Taxes**. State and local payroll taxes include the total amount paid by a borrower for employer state and local taxes assessed on employee compensation (e.g., state unemployment insurance tax), but not including any taxes withheld from employee earnings.
- **Covered Supplier Cost Expenditures**. Expenditures made (a) to a supplier of goods for goods that are essential to the borrower’s operations at the time the expenditure is made and (b) pursuant to a contract, order or purchase order in effect at any time before the PPP loan is disbursed, provided that for perishable goods such expenditure need not be tied to a contract or purchase order that existed prior to the PPP loan.
- **Covered Worker Protection Expenditure**. Certain operating or capital expenditures required to meet worker or customer safety requirements or guidance related to COVID-19 issued by the Department of Health and Human Services, the Centers for Disease Control, the Occupational Safety and Health Administration, or any equivalent state or local requirements implemented between March 1, 2020 and the date the COVID-19 national emergency is lifted, for example, the purchase or renovation of drive-through windows, ventilation or filtration systems, or the expansion of physical space. Expenditures on real estate and other intangible property are not covered under this category.
- **Covered Operations Expenditure**. Expenditures for any business software or cloud computing service that facilitates business operations, product or service delivery, the processing, payment, or tracking of payroll expenses, human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records, and expenses.

- Covered Property Damage Cost. Expenditures related to property damage and vandalism or looting due to public disturbances that occurred during 2020 that were not covered by insurance or other compensation.

Eligible Non-Payroll Costs.

- Rent. Includes amounts due on equipment leases and other leases of personal property. Rent paid to a related real estate entity owned by the borrower is only forgivable to the extent it corresponds to a mortgage or lease paid to a third party by the related real estate entity. Applies only to a leasing agreement in force before February 15, 2020.
- Utilities. Payments for the distribution of electricity, gas, water, transportation, telephone, and internet access. Forgivable transportation costs are limited to transportation utility fees assessed by state or local government. Applies only to utilities for which service began before February 15, 2020.
- Interest. Excludes any pre-paid interest. Payments of interest on business mortgages on real or personal property (such as an auto loan) are eligible for loan forgiveness. Interest on unsecured credit is not eligible for loan forgiveness because the loan is not secured by real or personal property. Payments made on recently renewed leases or interest payments on refinanced mortgage loans are eligible for loan forgiveness if the original lease or mortgage existed prior to February 15, 2020. Applies only to interest on mortgages on real estate or personal property originated before February 15, 2020.

Notes

- For loans not already forgiven from round one, the additional expenses added in the December 2020 update (covered operations expenditures; covered property damage costs; covered supplier costs; and covered worker protection expenditures) can be utilized for forgiveness purposes.
- If a borrower has already received a forgiveness determination from the SBA, the borrower may not refile its loan forgiveness application to take advantage of the expanded provisions governing forgivable uses of PPP loan proceeds.