

PPP Loan Forgiveness: Understanding the Application Process

Tom Wagstaff, CPA

Senior Partner | Petrinovich Pugh & Company, LLP

August 26, 2020




Things are changing rapidly. This information is accurate at the time of presentation.

Please note that this webinar and the material contained herein has been prepared for informational purposes only and is not intended to provide, nor should be relied upon for, tax advice. Please consult with a certified tax professional and/or certified lender for advice and recommendations.

What to Expect...

1. **PPP Flexibility Act**
2. **Just the FAQs**
3. **Forgiveness Application Forms**
4. **Quick PPP Review**
5. **Should I apply early?**
6. **Recommendations**





Paycheck Protection Flexibility Act

✓ PPP Flexibility Act

- **3/27 CARES act included \$2.3 trillion relief package**
- **Headline was the creation of PPP Under Section 7a of SBA**
 - ✓ **designed to put \$600 billion in hands of small businesses for use in paying wages and critical expenses**
- **PPP loan may be a loan in name only – once borrower receives funds, the amount spent during the next (previously 8, now 24) weeks on payroll, mortgage interest, rent and utilities may be eligible for forgiveness**



General Loan Forgiveness

Personal Details

L rd No

Just the FAQs



Which loan forgiveness application should I complete?



Form 3508EZ or lender equivalent:

- Sole proprietors, independent contractors, and other self-employed individuals with no employees
- Employers who did not reduce the salaries or wages of their employees by more than 25%, **and** did not reduce the number or hours of their employees

Form 3508:

- All others



Loan Forgiveness Payroll Costs

Just the FAQs



Are payroll costs that were incurred during the Covered Period or the Alternative Payroll Covered Period but paid after the Covered Period or the Alternative Payroll Covered Period eligible for loan forgiveness?



Yes, if the payroll costs are paid on or before the next regular payroll date after the Covered Period or Alternative Payroll Covered Period.

Just the FAQs



Are payroll costs that were incurred *before* the Covered Period but paid *during* the Covered Period eligible for loan forgiveness?



Yes.

Just the FAQs



Should borrowers use the **gross amount** before deductions for taxes, employee benefits payments, and similar payments, or the **net amount** paid to employees?



Use the gross amount.

Just the FAQs



What expenses for group health care benefits will be considered payroll costs that are eligible for loan forgiveness?



Forgiveness is not provided for expenses for group health benefits accelerated from periods outside the Covered Period or Alternative Payroll Covered Period.

Just the FAQs



Can I include the employer's portion of payroll taxes in the forgiveness calculation?



No.

Just the FAQs



What contributions for retirement benefits will be considered payroll costs that are eligible for loan forgiveness?



Forgiveness is not provided for employer contributions for retirement benefits accelerated from periods outside the Covered Period or Alternative Covered Period. FAQ 8 outlines the treatment of retirement benefits for owners.

Just the FAQs



How is the amount of owner compensation that is eligible for loan forgiveness determined?



- Depends on the business type and Covered Period
- Capped at \$20,833 or \$15,385
- C-Corp Owner-Employee
- S-Corp Owner-Employee
- Self-Employed Schedule C or F Filers
- General Partners

Just the FAQs



How is the amount of owner compensation that is eligible for loan forgiveness determined?



- Depends on the business type and Covered Period
- Capped at \$20,833 or \$15,385
- C-Corp Owner-Employee
- S-Corp Owner-Employee
- Self-Employed Schedule C or F Filers
- General Partners



Non-Payroll Costs

Just the FAQs



Are nonpayroll costs incurred during the Covered Period, but paid after the Covered Period, eligible for loan forgiveness?



Yes...if they were incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period.

Just the FAQs



Is interest on unsecured credit eligible for loan forgiveness?



No. Although interest on unsecured credit incurred before 2/15/2020 is a permissible use of PPP loan proceeds, it is not eligible for forgiveness.

FORGIVENESSES
LOAN

REDUCTIONS

Just the FAQs



Will forgiveness amount be reduced due to a reduction in FTE employees during the Covered Period if laid off employees declined borrower's offer to rehire?



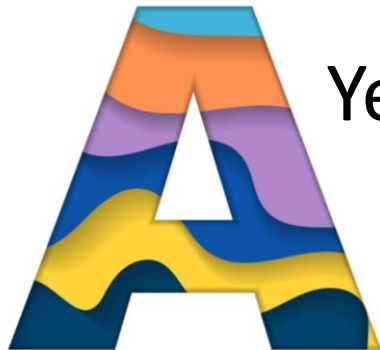
a borrower may exclude any reduction in FTE employees if the borrower can document:

1. inability to rehire individuals who were employees of the borrower on February 15, 2020 and
2. inability to hire similarly qualified individuals for unfilled positions on or before December 31, 2020

Just the FAQs



When calculating the FTE Reduction Exceptions, do borrowers include employees who made more than \$100,000 in 2019?



Yes. The FTE reduction exceptions apply to all employees.

General Overview



1. At Least 60% must be used for payroll, health insurance and pension contributions (increased from the original 75% requirement).
2. Your banker is your gatekeeper. The banker will be the one who determines the amount of forgiveness.

“Paid or Incurred”

- Costs “paid or incurred” within covered period eligible for forgiveness
 - special rules govern “paid or incurred” for payroll costs
 - “paid” is date distributed (so you could immediately pay wages that had been earned prior to the covered period)
- “Incurred” added flexibility in guidelines
 - Payroll costs incurred for your last pay period of the 24-week period are eligible for forgiveness as long as they are paid no later than the next regular payroll date
- For non-payroll costs, expenses must either be paid during covered period or incurred during covered period and paid by next regular due date, even if that due date is outside covered period

Maximizing Forgiveness

1. Eligible expenditures consist of:

a. 60% expenditures – Payroll costs (originally 75%)

i. Payroll

a) Limited by the amount of \$100k per person annualized – \$8,333 per month

b) Further limited by payroll limitations for owners

ii. State Employer Taxes

iii. Pension Contribution

iv. Health insurance

b. 40% Expenditures (originally 25%)

i. Rent

ii. Mortgage Interest

iii. Utilities

iv. Internet/Telephone

v. Gasoline for Transportation Vehicles



Reduction in Loan Forgiveness

- a. **“Salary Reduction.”** Forgiveness reduced if more than 25% reduction in pay rate for employees making less than \$100k per year. Compare:
 - covered period – average annual salary for each employee 24-month period starting when loan is funded
 - reference period – average annual salary for each employee from January 1, 2020 through March 31, 2020
- b. **FTE Reductions.** Compare:
 - covered period – average FTEs during 24-week covered period
 - reference period – average FTEs using either:
 - 2/15/2019 to 6/30/19 or
 - 1/1/2020 to 2/29/2020

Safe Harbor – Restore to 2/15/20 FTE level by 12/31/20 (was 6/30/20)

Reduction in Loan Forgiveness (cont'd)

Exemption for Employees Who Refuse to Come Back to Work

Employees whom a borrower offered to rehire are generally exempt from the loan forgiveness reduction calculation if:

1. The borrower made a good faith, written offer to rehire such employee during the covered period
2. The offer was for the same salary and same number of hours as earned by such employee in last pay period prior to separation
3. The offer was rejected by the employee in writing
4. The borrower maintains records of the offer and its rejection
5. The borrower informed the applicable state unemployment insurance office of such employee's rejected offer within 30 days of the rejection


Forgiveness & Taxes



- Forgiveness of loan is tax free
- NEW – IRS issued recent guidelines that expenses “allocable to tax exempt income” are not deductible by payor
- Expenses paid by borrower – to the extent of forgiveness on tax free basis – will NOT be deductible

Additional Changes from new PPP Guidelines (HR 7010)

In addition to the extension of covered period to 24 weeks, and increase in eligible non-payroll costs to 40%, HR 7010 created the following changes:

- 
1. The maturity date of the non-forgiven PPP loan portion was extended from 2 years to 5 years
 2. It appears that if a borrower fails to spend 60% of loan proceeds on payroll costs, **NONE** of the loan will be forgivable
 - a. The SBA has clarified that partial loan forgiveness will indeed still be available under the new 60% threshold. Specifically, if a borrower uses less than 60% of the loan amount for payroll costs during the forgiveness covered period, the borrower will continue to be eligible for partial loan forgiveness.

Additional Changes from new PPP Guidelines (cont'd)

3. Period to restore FTEs to February 15 safe harbor level extended from June 30 to December 31
4. New relief for businesses that remain partially or fully closed through 12/31/2020
 - Loan forgiveness will NOT be reduced when borrower experiences loss of FTEs if borrower, in good faith, is able to document:
 - ✓ inability to rehire individuals who were employees on 2/15/20
 - ✓ inability to hire similarly qualified employees for unfilled positions on or before 12/31/20
 - ✓ inability to return to 2/15/20 level of activity due to compliance with requirements of government orders - HHS or CDC - during period from 3/21/20 to 12/31/20
5. PPP Borrower may now defer all of 2020 Social Security tax into 2021 and 2022, even if PPP loan is forgiven

Loan Forgiveness Applications Accepted as of 8/12/20

You will need:

- PPP Loan amount
 - PPP loan disbursement date
- Employees (FTE) at time of loan application
 - Employees (FTE) at time of forgiveness
 - Payroll schedule
- Covered period (was 8 weeks, now 24 weeks)

✓ Documentation

1. Separate bank account reconciliation
2. Copy payments made and back-up for each period, and keep them in a file
3. Attach **ALL OF THE DETAIL** as referenced in the Loan Forgiveness Application

True to Form





Paycheck Protection Program
Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")	DBA or Tradename, if applicable	
Business Address	Business TIN (EIN, SSN)	Business Phone
		() -
	Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____ Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

☐ Weekly ☐ Biweekly (every other week) ☐ Twice a month ☐ Monthly ☐ Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here: ☐

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10): _____

Line 2. Business Mortgage Interest Payments: _____

Line 3. Business Rent or Lease Payments: _____

Line 4. Business Utility Payments: _____

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3): _____

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5: _____

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13): _____

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7): _____

Line 9. PPP Loan Amount: _____

Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60): _____

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10): _____



By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The authorized representative of the Borrower certifies to all of the below by **initialing** next to each one.

- _____ The dollar amount for which forgiveness is requested:
- was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes all applicable reductions due to decreases in the number of full-time equivalent employees and salary/hourly wage reductions;
 - includes payroll costs equal to at least 60% of the forgiveness amount;
 - if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
 - if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
- _____ I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
- _____ The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.
- _____ I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
- _____ The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 U.S.C. 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 U.S.C. 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 U.S.C. 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- _____ The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
- _____ I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.
- _____ If the Borrower has checked the box for FTE Reduction Safe Harbor 1 on PPP Schedule A, the Borrower was unable to operate between February 15, 2020 and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

Signature of Authorized Representative of Borrower

Date

Print Name

Title



PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:
If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here ☐ and enter **0** on line 3. _____

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2: _____

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2: _____

Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

Line 6. Total amount paid or incurred by Borrower for employer contributions for employee health insurance: _____

Line 7. Total amount paid or incurred by Borrower for employer contributions to employee retirement plans: _____

Line 8. Total amount paid or incurred by Borrower for employer state and local taxes assessed on employee compensation: _____

Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners:
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each. _____

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): _____

Full-Time Equivalency (FTE) Reduction Calculation

If you satisfy **any** of the following three criteria, check the appropriate box, skip lines 11 and 12, and enter **1.0** on line 13; otherwise, complete lines 11, 12, and 13:

No reduction in employees or average paid hours: If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period, check here ☐.

FTE Reduction Safe Harbor 1: If you were unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19, check here ☐.

FTE Reduction Safe Harbor 2: If you satisfy FTE Reduction Safe Harbor 2 (see PPP Schedule A Worksheet), check here ☐.

Line 11. Average FTE during the Borrower's chosen reference period: _____

Line 12. Total Average FTE (add lines 2 and 5): _____

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if any of the above criteria are met: _____



PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

Attach additional tables if additional rows are needed.

FTE Reduction Safe Harbor 2:

- Step 1. Enter the borrower's total average FTE between February 15, 2020 and April 26, 2020. Follow the same method that was used to calculate Average FTE in the PPP Schedule A Worksheet Tables. Sum across all employees and enter: _____.
- Step 2. Enter the borrower's total FTE in the Borrower's pay period inclusive of February 15, 2020. Follow the same method that was used in step 1: _____.
- Step 3. If the entry for step 2 is greater than step 1, proceed to step 4. Otherwise, FTE Reduction Safe Harbor 2 is not applicable and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.
- Step 4. Enter the borrower's total FTE as of the earlier of December 31, 2020, and the date this application is submitted: _____.
- Step 5. If the entry for step 4 is greater than or equal to step 2, enter 1.0 on line 13 of PPP Schedule A; the FTE Reduction Safe Harbor 2 has been satisfied. Otherwise, FTE Reduction Safe Harbor 2 does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.



PPP Borrower Demographic Information Form (Optional)

Instructions

1. **Purpose.** Veteran/gender/race/ethnicity data is collected for program reporting purposes only.
2. **Description.** This form requests information about each of the Borrower's Principals. Add additional sheets if necessary.
3. **Definition of Principal.** The term "Principal" means:
 - For a self-employed individual, independent contractor, or a sole proprietor, the self-employed individual, independent contractor, or sole proprietor.
 - For a partnership, all general partners and all limited partners owning 20% or more of the equity of the Borrower, or any partner that is involved in the management of the Borrower's business.
 - For a corporation, all owners of 20% or more of the Borrower, and each officer and director.
 - For a limited liability company, all members owning 20% or more of the Borrower, and each officer and director.
 - Any individual hired by the Borrower to manage the day-to-day operations of the Borrower ("key employee").
 - Any trustor (if the Borrower is owned by a trust).
 - For a nonprofit organization, the officers and directors of the Borrower.
4. **Principal Name.** Insert the full name of the Principal.
5. **Position.** Identify the Principal's position; for example, self-employed individual; independent contractor; sole proprietor; general partner; owner; officer; director; member; or key employee.

Principal Name		Position
Veteran	1=Non-Veteran; 2=Veteran; 3=Service-Disabled Veteran; 4=Spouse of Veteran; X=Not Disclosed	
Gender	M=Male; F=Female; X=Not Disclosed	
Race (more than 1 may be selected)	1=American Indian or Alaska Native; 2=Asian; 3=Black or African-American; 4=Native Hawaiian or Pacific Islander; 5=White; X=Not Disclosed Disclosure is voluntary and will have no bearing on the loan forgiveness decision	
Ethnicity	H=Hispanic or Latino; N=Not Hispanic or Latino; X=Not Disclosed	

Paperwork Reduction Act – You are not required to respond to this collection of information unless it displays a currently valid OMB Control Number. The estimated time for completing this application, including gathering data needed, is 180 minutes. Comments about this time or the information requested should be sent to Small Business Administration, Director, Records Management Division, 409 3rd St., SW, Washington DC 20416, and/or SBA Desk Officer, Office of Management and Budget, New Executive Office Building, Washington DC 20503. **PLEASE DO NOT SEND FORMS TO THESE ADDRESSES.**

Should I apply for PPP Loan forgiveness





**SBA and US Treasury New Interim Final Rule on Revisions to Loan Forgiveness
(released June 22, 2020) indicates that:**

"A borrower may submit a loan forgiveness application any time on or before the maturity date of the loan - including before the end of the covered period - if the borrower has used all of the loan proceeds for which the borrower is requesting forgiveness.

If the borrower applies for forgiveness before the end of the covered period and has reduced any employee's salaries or wages in excess of 25 percent, the borrower must account for the excess salary reduction for the full 8-week or 24-week covered period, as described in Part 111.5."*



How do early applicants account for FTE reductions for the length of their covered period?



The Interim Final Rule addresses salary/hourly wage reductions, but not FTE reductions.



Must borrowers maintain FTE and salary/hourly wage rates throughout the remainder of their covered period to avoid reduction in forgiveness amount?



The Interim Final Rule states that salary/hourly wage reduction will be projected to the end of the covered period but does not address this issue.



Can borrowers still use “...the earlier of December 31, 2020 and the date [the forgiveness] application is submitted...” for the FTEE Reduction and Salary/Wage Reduction Safe Harbors if the date of the forgiveness application submission is before the end of the covered period?



The New Interim Final Rule does not address this issue. Because borrowers are required to project the salary/hourly wage reduction to the end of the covered period, an argument could be made that the Safe Harbors do not apply to borrowers who file early.

Interim Final Rule Released 8/24/2020





QUESTIONS

A portrait of Tom Wagstaff, a middle-aged man with grey hair, wearing a dark suit jacket over a white shirt. He is smiling and looking towards the camera.

Tom Wagstaff, CPA / Senior Partner
Petrinovich Pugh & Co, LLP
twagstaff@ppandco.com / 408.287.7911

That's all Folks!

*Take care
and be safe*