PPP LOAN FORGIVENESS: THE APPLICATION

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Agenda

- Housekeeping Items
- PPP Loan Forgiveness Application Overview
- 8-week Covered Period or Alternative Covered Period
- Payroll Costs
- Non-Payroll Costs
- Wage Reduction Limitation
- FTE Reduction Limitation
- 75% Payroll Cost Limitation
- Documentation Required
- Closing Thoughts with Q&A
• Must Submit Application to your Lender
  • 11 pages of forms and step-by-step instructions
• Loan Forgiveness Calculation Form
• PPP Schedule A
  • Schedule A worksheet
    • Table 1 and Table 2
• Representations & Certifications Page
• Optional PPP Borrower Demographic Info
• SBA will soon issue more regulations and guidance for borrowers and lenders
PPP Application Overview

• Data to include on the application:

  • Business legal name, EIN/SSN, address, phone, primary contact and E-mail address (same as on application)
  • SBA and Lender PPP loan number
  • PPP loan amount
  • Employees at time of loan application and at time of forgiveness application
  • PPP loan disbursement date
  • EIDL advance amount
  • EIDL application number
  • Payroll schedule
  • Covered or alternative covered period
  • Check the box if received in excess of $2 Million
PPP Loan Forgiveness Calculation Form

8-Week Covered Period Can Change

• Original Covered Period (8-weeks)
  • First day must be the same as the PPP Loan Disbursement Date
    • Received proceeds in your bank account in Monday, April 20
    • First day is April 20 and the last day is Sunday, June 14

• Alternative Payroll Covered Period
  • For those with bi-weekly (or more frequent) payroll schedule
  • Elect to start 8-week period beginning with the first day of first payroll period following PPP Loan Disbursement
    • Received proceeds in your bank account Monday, April 20
    • First day of first pay period after the loan disbursement is Sunday, April 26
    • First day of the alternative covered period is April 26 and the last day is Saturday, June 20
  • If using this, you MUST apply this to everywhere the application addresses alternative payroll covered period and the covered period anywhere the application references covered period
Eligible Payroll Costs

- Based on Interim Ruling, costs included:
  - Compensation to employees (who reside in the United States) as salary, wages, commissions or similar compensation (tips or equivalent)
  - Payment for vacation, parental, family, medical or sick leave
  - Allowance for separation or dismissal
  - Payment for employee benefits of group health care costs and retirement
  - Payment of state and local taxes – this is the state unemployment or state disability charged to the employer, not the income taxes withheld by the employee
- EXCLUDED Payroll Costs
  - Compensation of employees who live outside of the United States
  - Compensation to an individual employees in excess of an annual salary of $100K, that means the maximum you can enter is $15,385 for a single person
  - Qualified sick and family leave wages you received a credit for under the Families First Act
Eligible Payroll Costs

- Costs paid OR incurred during the 8-week covered period (CP)
- Considered paid on the day paychecks are distributed or origination of ACH
- Considered incurred on the day the employee's pay is earned
- If incurred and not paid by end of CP, eligible if paid on or before the next regular payroll date. Otherwise, must be paid during CP.
- Each employee's eligible compensation may not exceed an annual salary of $100K
  - Maximum amount during CP per employee is $15,385
- Count payroll costs both paid and incurred only one time
- For owner-employee or self-employed: CANNOT exceed 8-weeks of 2019 compensation (this is in the certifications)
Payroll Costs

PPP Schedule A used to calculate total payroll costs (Lines 1 – 5 uses Tables 1 & 2 to calculate costs)

Table 1 – Employees who made less than $100k annualized for all pay periods in 2019

- Employee's name (do not include owners, independent contractors, self-employed individuals or partners)
- Employee's last four digits of SSN or ITIN
- Cash compensation
- FTE count for that person – value between .1 and 1.0
- Salary/Hourly Wage reduction - this is very complex but it should rarely apply and employers can avoid it by paying the same rate as they did in Q1, one goal of every employer should be to not have this limitation apply, it’s within the employer’s control to pay enough to avoid this
- There are reduction exceptions and safe harbor
### Payroll Costs

#### PPP Schedule A Worksheet, Table 1 Totals

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

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

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.

#### 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.

<table>
<thead>
<tr>
<th>Employee’s Name</th>
<th>Employee Identifier</th>
<th>Cash Compensation</th>
<th>Average FTE</th>
<th>Salary / Hourly Wage Reduction</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

**FTE Reduction Exceptions:**

<table>
<thead>
<tr>
<th>Totals:</th>
<th>Box 1</th>
<th>Box 2</th>
<th>Box 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
PPP Schedule A

Table 2 – employees who made more than $100k annualized for any one pay period in 2019

• Employee's name (do not include owners, independent contractors, self-employed individuals or partners)
• Employee's last four digits of SSN or ITIN
• Cash compensation
• FTE count for that person – value between .1 and 1.0
• Note that the wage reduction does not apply at all on Table 2
• There are reduction exceptions and safe harbor
Payroll Costs

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:

Schedule A

Sch A Worksheet Table 2

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.

<table>
<thead>
<tr>
<th>Employee's Name</th>
<th>Employee Identifier</th>
<th>Cash Compensation</th>
<th>Average FTE</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Totals:</td>
<td>Box 4</td>
<td>Box 5</td>
<td></td>
</tr>
</tbody>
</table>

Attach additional tables if additional rows are needed.
Payroll Costs

PPP Schedule A Lines 6 – 9

- Line 6 – Employer contributions for group health insurance, excluding any pre-tax or after-tax contributions by employees
- Line 7 – Employer contributions to retirement plans, excluding any pre-tax or after-tax contributions by employees
- Line 8 – Employer paid state and local taxes (state unemployment insurance, not fees)
  - Do NOT include any taxes withheld from employees
- Line 9 – Enter amounts paid to owners (owner-employee, self-employed, general partners).
  - Capped at $15,385 or the 8-week equivalent of their applicable compensation in 2019, whichever is lower
  - If more than one, include a separate table.
Payroll Costs - FTE

FTE has a new definition

1. Full time is deemed to be 40 hours per week

2. Take hours and divide by 40 to get the FTE, rounded to the nearest 10th
   a) 8 hours per week would be .2 FTE
   b) 60 hours per week would be just 1.0 FTE

3. Simplified method is permitted which allows 1.0 FTE for all individuals 40+ hours per week and .5 FTE for everyone not full time
   a) 8 hours per week would be .5 FTE
   b) 60 hours per week would be just 1.0 FTE
   c) 32 hours per week also .5 FTE

4. Consistent method of hours to the nearest tenth or the simplified method must be used across all the measurement periods

5. Safe harbor is still in place
Non-Payroll Costs

These costs cannot exceed 25% of the total forgiveness amount and will be input onto the Forgiveness Calculation Form:

Line 2 – Mortgage interest payment during CP if obligation was incurred before February 15, 2020 (do not include prepayments).

Line 3 – Business rent or lease payments for real or personal property during the CP if a lease agreement was in place before February 15, 2020

Line 4 – Business utility payments for electricity, gas, water, transportation, telephone or internet access during the CP if service began before February 15, 2020

• Be sure to pay on or before the next billing date, even if it is after the CP.

Note – you are not required to report payments you do not want included in the forgiveness amount. This is key to make sure you stay within the 75%/25% rule.

Note – there is nothing stated about paying an invoice from before your CP, the service or agreement just must have been in place before February 15, 2020. So paying your past due rent should qualify as an example.
Wage Reduction Limitation

Line 5 of application and Line 3 on Schedule A Worksheet Table 1

• Determine if loan forgiveness must be reduced if a reduction in employee salary and wages occurs

• Compare employees pay from January 1, 2020 – March 31, 2020

• If restored wages to what they made, you may be eligible for elimination of the wage reduction amount.

• The worksheet must be completed to determine if you need to reduce the loan forgiveness amount only for employees who had a reduction of more than 25%.

• Be SURE to avoid this.

• Note: If an employee made more than $1,923 in any one single week of 2019, that employee is not considered for this limitation.
  • Employee paid $1k per week and then receives a $1k bonus at year end $53k of total compensation for the employee, but since one week exceeded $1,923, they are not considered for this limitation, meaning they could in theory have their 2020 salary reduced during the covered period.
FTE Reduction Limitation

On the application – disclosing employees at the time of the loan application and at time of forgiveness application. Presumably use the new FTE calculation for this disclosure.

Line 7 on Application and lines 11-13 on PPP Schedule A Worksheet.

FTE Reduction Safe Harbor and Exceptions:

A. Safe Harbor exemption from reduction in FTE -
   Both conditions must be met:
   1. Reduced FTE count from February 15, 2020 to April 26, 2020
   2. Restore FTE by no later than June 30, 2020

B. FTE Reduction Exceptions (must be during 8-week CP or APCP) -
   1. Written offer to rehire employee was rejected by employee
   2. Fired for cause, voluntarily resigned, or voluntarily requested & got hours reduction.
75% Payroll Cost Limitation

Line 10 of the Loan Forgiveness Application

• You will have done the adjustments for FTE and salary/wage reduction first.
• From the amount of the loan proceeds you used on payroll and other costs (even if it is not the full amount):
  • Make sure 75% or more is spent on payroll costs
  • Only up to 25% is spent on non-payroll costs
    • If more is spent on non-payroll costs, be sure to NOT submit them
  • Examples:

<table>
<thead>
<tr>
<th>Amount of PPP Loan</th>
<th>Amount Used</th>
<th>Amount Used on Payroll</th>
<th>Limited on 25% Used</th>
<th>Amount not forgiven</th>
</tr>
</thead>
<tbody>
<tr>
<td>350,000</td>
<td>315,000</td>
<td>216,000</td>
<td>72,000</td>
<td>27,000</td>
</tr>
<tr>
<td>236,250 75% of</td>
<td>236,250</td>
<td>236,250</td>
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<tr>
<td>78,750 25% of</td>
<td>78,750</td>
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</table>
Documentation Required to Submit

- PPP Loan Forgiveness Calculation Form
- PPP Schedule A
- Payroll
  - Bank account statements or third-party payroll service provider reports documenting cash compensation paid to employees.
  - Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the CP.
    - Payroll tax filings reported (or will be reported) to the IRS, typically Form 941 and
    - State quarterly business and individual employee payroll wage reporting and unemployment insurance tax filings reported (or will be reported) to the state.
  - Payment receipts, cancelled checks, or account statements showing employer contributions to employer health insurance and retirement plans included in the forgiveness amount.
Documentation Required to Submit

• FTE documentation (election period of the Borrower):
  • Average number of FTE employees on payroll per month between February 15, 2019 and June 20, 2019 or
  • Average number of FTE employees on payroll per month between January 1, 2020 and February 29, 2020 or
  • For seasonal employers, the average number of FTE employees on payroll per month employed between February 15, 2019 and June 20, 2019, January 1, 2020 and February 29, 2020 or any consecutive 12-week period between May 1, 2019 and September 15, 2019.

  • The selected time period must be the same period used for completing PPP Schedule A, line 11.

• Documents may include:
  • Payroll tax filings reported (or that will be reported) to the IRS (typically Form 941) and state quarterly business and individual wage reporting and unemployment tax filings reported (or that will be reported) to the state.
Documentation Required to Submit

- Non-payroll costs
  - Documentation verifying existence of obligation/services prior to February 15, 2020
  - Business mortgage interest payments
    - Copy of lender amortization schedule and receipts of cancelled checks verifying eligible payments made during CP or a lender account statement from February 2020 and the months of the CP through one month after the CP verifying the amounts of interest paid.
  - Business rent or lease payments
    - Copy of current lease agreement and receipts of canceled checks verifying the payments during the CP or lessor account statements from February 2020 and the months of the CP through one month after the CP verifying the amounts of rent paid.
  - Business utility payments
    - Copy of invoices from February 2020 and those paid during the CP and receipts, cancelled checks, or account statements verifying the eligible payments.
Documentation Not Required to be Submitted but to be Maintained

• PPP Schedule Worksheet A or its equivalent along with:
  • Documentation supporting the listing of each individual employee in Table 1, including the "salary/wage reduction" calculation, if necessary
  • Documentation supporting the listing of each individual employee in Table 2, specifically supporting they received more than an annualized $100K in 2019
  • Documentation supporting any employee job offers and refusals, firings for cause, voluntary resignations, and written requests from employees on reductions in their work schedule
  • Documentation supporting the FTE Reduction Safe Harbor

• All other records relating to the PPP loan application, certifications, eligibility, loan forgiveness and compliance with the PPP requirements.

• Retain ALL documentation for SIX years after the date the loan is forgiven or repaid.
• Permit authorized SBA representatives and representatives of the Office of the Inspector General to access these files on request.
Quick review of the rule changes from this weekend:

1. Alternative Covered Period can be used at the borrower's choice to align with the normal pay period of the business.
2. Owner compensation limited to 8/52 * 2019 payroll.
3. Payroll costs can be paid during the CP OR incurred during the CP and paid in the next payroll period.
4. Nonpayroll costs include everything paid or incurred during the CP so the back rent or overdue utilities will count if paid in the CP.
5. FTE definition changed to 40 hours and simplified method allowed for anyone to use.
6. FTE not reduced for employees who decline the position, fired for cause, resigned voluntarily, or reduced hours voluntarily.
PPP Loan Balance

- Good news for partnerships and seasonal businesses:
  - If you applied before the guidance came out regarding partner compensation and the loan amount calculation adjustment for seasonal businesses, check with your lender to get the additional amount for the PPP loan
  - This will not change your 8-week period

- What do I do with the amount I do not use or do not get forgiven?
  - It becomes a loan, or you can pay it back with no prepayment penalty
  - 1% interest
  - Amortized over 2 years
  - 6-month payment deferment but interest accrues
PPP, EIDL Advance and EIDL Loan

- Many wonder, what do I do now? I got one, two or all three:
  - EIDL Advance is stated in the application: if applicable, SBA will reduce the loan forgiveness amount
  - If you got the PPP and EIDL Loan, you need to use them for different purposes during the 8-week period
  - If you did not already apply for the EIDL, it is currently only being offered to U.S. agricultural businesses
  - Track these in separate bank accounts. To ease burden at end, we suggest tracking weekly and doing reimbursements as you go along.
  - If you did apply and still have not heard:
    - 800-659-2955 or disastercustomerservice@sba.gov
Lots of guidance still needed on questions like these:
1. Can the relatives of owners have increased payroll?
2. Does the health insurance and retirement contributions for the owner qualify?
3. When does the APCP start for a business that is closed and not actively running any payroll when the PPP is received?
4. Why do some items say paid while others say paid or incurred?
5. Clarity for Sch C business - does the owner need to take a distribution of cash to be paid the payroll costs? (conflicting guidance on this)
6. Clarity for Sch C business in terms of health insurance and retirement plan contributions.
7. What does transportation cost really mean?
8. What if Sch C applied with their 2018 Sch C, issue with the consistency certification?
• Congress is working on new bills

• HEROES Act went through the House, it’ll be torn up in the Senate, unknown which parts of the 1,800 pages will stick around

• Congress looking to give business a tax deduction for the costs incurred and then forgiven

• Congress looking for ways to ease burden on small business for PPP forgiveness, unknown what that might look like or when it might pass

• Congress looking for flexibility or extension of 8 weeks, especially for a business that was closed by local order