

# Welcome to our Webinar

- ▶ Copies of this presentation and other resources can be found at <https://ceriniandassociates.com/coronavirus-updates/>
- ▶ Our presentation is based on all information and is current as of October 21<sup>st</sup>, 2020. Any key changes that have occurred may not be reflected in this presentation.
- ▶ The information provided is based on our interpretation of the CARES Act after reviewing the law and consulting with other sources.
- ▶ This webinar & information is for educational purposes only and cannot be used to contest any IRS, SBA or other penalties or assessments. We make no guarantees regarding your eligibility for these programs or any related benefits.
- ▶ We will make every effort to answer questions at the end of the webinar, time permitting.
- ▶ Thank you for your attendance!

# PPP Loan Forgiveness Refresher



**CERINI**  
*&* **LLP**  
**ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS

October 22, 2020

11:00 am

# About the Speaker

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- ▶ 10+year experience
- ▶ Industry expertise includes Healthcare, Financial Services, Technology, Professional Services, State and Local Taxation, & International Taxation
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# PPP Eligible Expenses

PPP Eligible Costs	
1	Payroll Costs
2	Mortgage Interest (not principal) on "real and personal property" for a mortgage incurred prior to February 15, 2020
3	Rent or lease payments for "real or personal property" for leases incurred prior to February 15, 2020
4	Utilities for service that began prior to February 15, 2020. Utilities include gas, water, electric, transportation, telephone, internet access

AT LEAST (it can be more, just not less) 60% of the loan must be for payroll costs.

# PPP Expenses - Payroll Costs

Eligible Payroll Costs			
Cash Compensation			
	Limits		Notes
	8 Week	24 Week	
Employees	15,385	46,154	Includes all forms of cash compensation, such as wages, salary, tips, bonuses, commissions.
Owner-Employees (C Corporation)	15,385	20,833	Limited to LESSER of these amounts or prorated 2019 compensation
Owner-Employees (S Corporation)	15,385	20,833	Limited to LESSER of these amounts or prorated 2019 compensation
General Partners (LLC Partners)	15,385	20,833	92.35% of Box 14A used for the base; must be paid during covered period
Self-Employed Schedule C	15,385	20,833	Line 31 (Net profit or loss) used for base; no requirement to pay
			Owner compensation is limited across all businesses where an owner has an ownership stake
Health Insurance			
Employees	Amounts must be paid or incurred during the covered period. No statutory limit.	Includes health, dental & vision (dental & vision confirmed FAQ 51)	
Owner-Employees (C Corporation)		Includes health, dental & vision (dental & vision confirmed FAQ 51)	
Owner-Employees (S Corporation)		Already included in the calculation of Cash Compensation for 2%+ Shareholder	
General Partners (LLC Partners)		Already included in calculation of Box 14A	
Self-Employed Schedule C		Already included in the calculation of Line 31	
			Owner payments (C Corp) do NOT count toward 20,833 limit
Retirement Contributions			
Employees	Amounts must be paid or incurred during the covered period. No statutory limit.	Must be paid or incurred and not accelerated from other periods	
Owner-Employees (C Corporation)		Must be paid or incurred and not accelerated from other periods	
Owner-Employees (S Corporation)		Must be paid or incurred and not accelerated from other periods	
General Partners (LLC Partners)		Already included in calculation of Box 14A	
Self-Employed Schedule C		Already included in the calculation of Line 31	
The current guidance states that "forgiveness is not provided for benefits accelerated from periods outside the Covered Period", allows for "paid or incurred"			
State & Local Taxes Assessed on Pay			
Employees	Amounts must be paid or incurred during the covered period. No statutory limit.	NY Borrowers - Includes State Unemployment Insurance & MCTMT	
Owner-Employees (C Corporation)		NY Borrowers - Includes State Unemployment Insurance & MCTMT	
Owner-Employees (S Corporation)		NY Borrowers - Includes State Unemployment Insurance & MCTMT	
General Partners (LLC Partners)		Already included in calculation of Box 14A	
Self-Employed Schedule C		Already included in the calculation of Line 31	

# PPP Expenses - Nonpayroll costs

Nonpayroll Costs		
Interest on Mortgage Payments		
Real Property	Buildings, Land	
Personal Property	Business Autos, Equipment.	
To qualify as a mortgage it must be <i>secured</i> by the property		
Auto loan is specifically stated in FAQ Question 4		
Rent		
Rent paid to an unrelated party is a forgivable use. No statutory limits.		
Rent paid to a related party (i.e. a building owned by a separate LLC) is limited to the allowable mortgage interest		
Can be a lease payment for personal property (i.e. servers, copiers, etc)		
Utilities		
Electricity	Transportation	This is for state & local transportation utility fees
Gas	Telephone	
Water	Internet	

# PPP Expenses - Timing

- ▶ “Paid OR incurred”
  - ▶ Expenses (payroll costs & non-payroll) incurred prior to the covered period, paid during the covered period are eligible. (PPP Loan Forgiveness FAQ Question 2, Nonpayroll cost 1)
    - ▶ Likely means that any retirement benefits paid for a prior year during the covered period may be eligible - however, FAQ 7 states “may not accelerate from periods outside the covered period”.
  - ▶ Payroll costs incurred during the covered period (or alternative covered period) and paid by the “next regular payroll date”
    - ▶ Likely means that any retirement benefits (a payroll cost) not paid by this time (from a year-end or post year-end payment) will NOT be eligible.
    - ▶ May need to prorate.
  - ▶ Nonpayroll costs incurred during the covered period and paid by next billing date are eligible for forgiveness.

# PPP Expenses - Best Practices and Tips

- ▶ Conceptually borrowers were given 10 weeks of payroll and a 24-week period to use it - many borrowers will be able to cover the loan proceeds on payroll costs alone.
- ▶ Given the 24 week period and the above, many borrowers can “skip” the use of an alternative covered period vs covered period decision.
- ▶ The forgiveness standards are closer to a “cash basis” than an “accrual basis”; there is an emphasis on paid throughout the FAQs.
- ▶ A conservative approach should never steer you wrong - if you don’t feel as if the cost should be included, do not include it.
- ▶ Don’t bang your head against the wall if you don’t need to - get your once you get to full forgiveness on the calculations stop.



# Forgiveness Calculations

# Forgiveness Applications

- ▶ SBA Form 3508
  - ▶ Used by “most” borrowers, particularly if they have any FTE or Salary Reductions
  - ▶ Presentation is based on this form, but since the below are derived from this, it is substantially similar.
- ▶ SBA Form 3508EZ
  - ▶ Can be used by borrowers if they can certify one of the following
    - ▶ Self-employed with no employees (superseded by 3508S)
    - ▶ Borrower did not have any wage reductions AND did not reduce number of FTEs
    - ▶ Borrower did not have any wage reductions AND was unable to operate at the same level of business activity
- ▶ SBA Form 3508S
  - ▶ Loans for less than \$50,000
  - ▶ Exempt from FTE or salary reductions
  - ▶ Borrowers must still maintain the calculations, but are not required to show.

# Forgiveness Calculation

## Lowest of 3 Amounts

Line 8	Modified Total	
Line 9	PPP Loan Amount	
Line 10	Payroll Cost Requirement	-
Line 11	Forgiveness Amount	-

## Modified Total

Payroll & Nonpayroll Costs		Source
Payroll Costs		PPP Schedule A
Business Mortgage Interest Payments		Direct Input
Business Rent or Less Payments		Direct Input
Business Utility Payments		Direct Input
<b>Total Payroll &amp; Nonpayroll Costs</b>		
Less: Adjustments for Wage Reduction		PPP Schedule A
<b>Subtotal</b>		
Less: FTE Reduction Quotient		PPP Schedule A
<b>Modified Total (Line 6 x Line 7)</b>		

## 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):

## 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):



# Forgiveness Calculation - Schedule A

## PPP Schedule A, Worksheet 1 (aka employees that made less than 100,000 in 2019)

	Source
Cash Compensation	Schedule A Worksheet
Average FTE	Schedule A Worksheet
Salary/Wage Reductions	Schedule A Worksheet

## PPP Schedule A, Worksheet 2 (aka employees that made more than 100,000 in 2019)

	Source
Cash Compensation	Schedule A Worksheet
Average FTE	Schedule A Worksheet

## Non-cash Payroll Costs (Retirement, Insurance, State & Local Taxes)

<i>Employer</i> contribution to:	Source
Health Insurance	Direct Input
Retirement Plans	Direct Input
State & Local Taxes	Direct Input

## Owner Compensation

	Source
Amounts paid to owner	Direct Input

**Total Payroll Costs** -

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

This schedule is REQUIRED with the forgiveness application

# Forgiveness Calculation - Schedule A (continued)

FTE Safe Harbor 1 - Unable to return to same level of business activity

No

FTE Safe Harbor 2 - Same FTE as February 15, 2020

No

FTE Reduction Calculations

	Source
FTE During the reference period	Direct Input
Average FTE	Sum of above
FTE Reduction Quotient	- Calculation; 1.0 if in <i>safe harbor</i>

**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: \_\_\_\_\_



# Forgiveness Schedule A Worksheet

**Table 1 - employees making less than \$100,000 per year annualized in 2019**

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary/Hourly Wage Reduction
Name	Last 4 SSN	Gross Pay	FTE Calc	Salary Reduction Calc
<b>FTE Reduction Exceptions</b>			<b>Exceptions</b>	
<b>Totals</b>		-	-	-

**Table 2 - employees making more than \$100,000 per year annualized in 2019**

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Name	Last 4 SSN	Gross Pay	FTE Calc
<b>Totals</b>		-	-

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
<b>FTE Reduction Exceptions:</b>				
<b>Totals:</b>		<b>Box 1</b>	<b>Box 2</b>	<b>Box 3</b>

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
<b>Totals:</b>		<b>Box 4</b>	<b>Box 5</b>

Gross pay should be limited to 46,154 or 15,385 depending on length of covered period.

**This worksheet is NOT required to be submitted; some lenders may request. Need to have on file (or equivalent).**

# FTE Calculations

- ▶ SBA allows for 2 methods on the FTE Calculations
  - ▶ Exact
  - ▶ Simplified
- ▶ Exact is based on “average number of hours worked per week” / 40
- ▶ Simplified uses a 1.0 for employees that work more than 40 hours per week, .5 for employees that work less than 40 hours per week.

	Average Hours Per Week	Average Weekly FTE (Exact)	Simplified FTE
Employee 1	42	1.0	1
Employee 2	40	1.0	1
Employee 4	37.5	0.9	0.5
Employee 5	20	0.5	0.5
Employee 6	12	0.3	0.5
Employee 7	8	0.2	0.5
		3.9	4.0

- ▶ Conservative & recommended approach is to calculate on a per week basis.
  - ▶ Some approaches have calculated on full period approach; this approach potentially distorts FTE reductions.
  - ▶ Application calls for (average weekly number of FTE)
- ▶ Include any PTO hours or hours an employee was otherwise “scheduled” to work, but may not have (either paid during covered period to not work, sick, etc.)

# Required FTE Calculations

- ▶ Reference Period (Jan/Feb 2020 or Feb 15, 2019 - June 30, 2019)
- ▶ Covered Period
- ▶ Safe Harbor Calculations:
  - ▶ As of Feb 15, 2020
    - ▶ Use the payroll week covering this date (e.g. a payroll for the week 10-14<sup>th</sup>)
  - ▶ Between February 15, 2020 - April 26, 2020
  - ▶ As of date of application or December 31, 2020, whichever is earliest
- ▶ Best practice: don't "overthink" it - use best judgment when calculating.



# FTE Safe Harbors

- ▶ There are 2 available “safe harbors” that allow borrowers to assume a 1.0 FTE Reduction Quotient
- ▶ Business activity Safe Harbor:
  - ▶ Borrower, in “good faith”, is able to “document” that it is unable to operate between February 15, 2020 and the end of the covered period at the same level of business activity as of February 15, 2020, due to compliance with HHS, CDC or OSHA requirements for sanitation, distancing or other worker/safety requirements.
  - ▶ IFR on 6/22/2020 stated that this has both “direct and indirect” compliance.
  - ▶ Further, compliance with state or local government shutdown orders will be considered as from these agencies, as these orders are based on guidance from the CDC, OSHA or HHS.
  - ▶ Documentation should include a copy of the applicable COVID requirements and relevant financial records.
- ▶ Rehiring Safe Harbor
  - ▶ The borrower had reductions during the period of February 15, 2020 to April 26, 2020 and restored to the amount of the February 15, 2020 FTEs by December 31, 2020 or date of application.

# FTE Reduction Exceptions

- ▶ These are reductions that do not count against any FTE reductions; they function as an artificial increase in FTE counts.
- 1. Any position which a “good-faith”, written offer to rehire an individual who was an employee as of February 15, 2020 and the employee rejected AND the employer was unable to hire similarly qualified employees by December 31, 2020 (or application date).
- 2. Any position which a “good-faith”, written offer to rehire, restore reductions or otherwise return to full employment and the employee rejected
- 3. Any employees who were
  - (a) Fired for cause
  - (b) Voluntarily resigned
  - (c) Voluntarily requested and received a reduction in hours (this should include any non-FFCRA FMLA, FLSA like maternity leave).

These exceptions only apply if the borrower does not fill the position otherwise.

# Third-Party Provider reports

- ▶ Many of the major payroll processors (ADP, Paychex) have created reports to assist with forgiveness.



## CARES SBA-PPP: Loan Forgiveness Payroll Cost From: 05/05/20 To: 10/19/20 Covered Period: 24 Weeks

This report provides the total payroll cost for all pay dates during your selected covered period length. The SBA payroll cost must be at least 60% of the forgiveness amount. Employees are listed alphabetically in two separate groups: first are employees who did not earn more than \$100,000 on an annualized basis\* in any single pay period in 2019 and employees who were not employed in 2019; and second are employees who earned, in at least one pay period in 2019, gross pay in excess of \$100,000 on an annualized basis\*. For your Loan Forgiveness Application, these two groups of employees will need to be listed separately.

Name	Gross Pay	FFCRA Excluded Earnings*	Gross Pay in Excess of \$100K Equivalent*	SBA Gross Pay	Employer Taxes State and Local	Employer Health Benefit Cost*	Employer Retirement Plan Cost*	SBA Payroll Cost
<b>Employees that are under \$100K in 2019</b>								
	\$37,500.00	\$0.00	\$0.00	\$37,500.00	\$0.00	\$0.00	\$0.00	\$37,500.00
	\$27,508.08	\$0.00	\$0.00	\$27,508.08	\$0.00	\$0.00	\$0.00	\$27,508.08
	\$40,001.82	\$0.00	\$0.00	\$40,001.82	\$25.59	\$0.00	\$0.00	\$40,027.41
	\$45,000.00	\$0.00	\$0.00	\$45,000.00	\$0.00	\$0.00	\$0.00	\$45,000.00
	\$25,005.72	\$0.00	\$0.00	\$25,005.72	\$0.00	\$0.00	\$0.00	\$25,005.72
<b>Total</b>	<b>\$175,015.62</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$175,015.62</b>	<b>\$25.59</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$175,041.21</b>
<b>Employees that are over \$100K in 2019</b>								
	\$70,000.02	\$0.00	\$23,846.02	\$46,154.00	\$0.00	\$0.00	\$0.00	\$46,154.00
	\$212,500.02	\$0.00	\$166,346.02	\$46,154.00	\$0.00	\$0.00	\$0.00	\$46,154.00
	\$80,000.04	\$0.00	\$33,846.04	\$46,154.00	\$0.00	\$0.00	\$0.00	\$46,154.00
	\$87,500.04	\$0.00	\$41,346.04	\$46,154.00	\$0.00	\$0.00	\$0.00	\$46,154.00
<b>Total</b>	<b>\$450,000.12</b>	<b>\$0.00</b>	<b>\$265,384.12</b>	<b>\$184,616.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$184,616.00</b>
<b>Grand Total</b>	<b>\$625,015.74</b>	<b>\$0.00</b>	<b>\$265,384.12</b>	<b>\$359,631.62</b>	<b>\$25.59</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$359,657.21</b>

**DO NOT AUTOMATICALLY ASSUME THESE ARE CORRECT - REVIEW FOR ERRORS**

# Third-Party Provider reports



PPP Forgiveness Data

Paychex, Inc.

Time Run: 10/21/2020 05:36:48 PM

User ID: 00JD49W7H8M2ICAQKA93

Period Dates: 05/05/2020 - 10/19/2020

Company ID	Company Name	Employees Name	Employee Identifier	Cash Compensation	Employer State / Local Taxes Assessed	Employer Retirement Benefit Costs	Employer Health Benefit Costs	Employee Pay Type	Employee Full-time/ Part-time Status	Avg. Payroll Hours Per Week Entered in Payroll	FTEs based on payroll hours INFORMATIONAL	Avg. FTEs Simplified Method	Over 100K for any 2019 Pay Period	Wage Reduction - 8 Weeks	Wage Reduction - 24 Weeks	Q1 2020 Wages	Covered Period Wages
				\$3,720.75	\$178.59	\$0.00		Hourly		29.03	0.7	0.5	No		\$0.00	\$0.00	\$3,498.00
				\$6,888.75	\$330.68	\$0.00		Hourly		22.87	0.6	0.5	No		\$0.00	\$0.00	\$6,055.50
				\$1,825.00	\$87.61	\$0.00		Hourly		32.56	0.8	0.5	No	\$0.00	\$0.00	\$0.00	\$1,645.00
				\$16,584.00	\$0.00	\$0.00		Hourly	Part Time	25.08	0.6	0.5	No	\$0.00	\$0.00	\$9,525.29	\$15,652.00
				\$13,950.00	\$556.84	\$0.00		Hourly		17.53	0.4	0.5	No		\$0.00	\$0.00	\$13,900.00
				\$1,529.00	\$73.40	\$0.00		Hourly		4.59	0.1	0.5	No		\$0.00	\$0.00	\$1,529.00
				\$20,400.00	\$0.00	\$0.00		Salary		0.00	0.0	1.0	No	\$0.00	\$0.00	\$10,264.28	\$19,485.71
				\$15,734.51	\$330.05	\$0.00		Other		12.21	0.3	1.0	No	\$0.00	\$0.00	\$3,030.75	\$14,127.04
				\$6,116.00	\$293.56	\$0.00		Hourly	Part Time	11.23	0.3	0.5	No		\$0.00	\$0.00	\$5,555.00
				\$153.00	\$7.34	\$0.00		Other		7.46	0.2	1.0	No		\$0.00	\$0.00	\$153.00
				\$12,559.38	\$313.91	\$0.00		Hourly	Part Time	19.79	0.5	0.5	No	\$0.00	\$0.00	\$3,402.50	\$11,381.25
				\$13,374.75	\$120.41	\$0.00		Hourly		27.38	0.7	0.5	No	\$0.00	\$0.00	\$6,599.07	\$12,764.04
				\$34,500.00	\$0.00	\$0.00		Salary	Part Time	0.00	0.0	0.5	No	\$0.00	\$0.00	\$17,940.00	\$32,922.86
				\$9,620.50	\$416.01	\$0.00		Hourly		19.28	0.5	0.5	No	\$0.00	\$0.00	\$1,829.32	\$8,658.43
				\$19,162.50	\$0.00	\$0.00		Salary		0.00	0.0	1.0	No	\$0.00	\$0.00	\$9,964.50	\$18,286.50
			Subtotal	\$176,118.14	\$2,708.40	\$0.00						9.5		\$0.00	\$0.00	\$62,555.71	\$165,613.33
			Total	\$176,118.14	\$2,708.40	\$0.00						9.5		\$0.00	\$0.00	\$62,555.71	\$165,613.33

# Forgiveness Best Practices & Tips

- ▶ With 10 months from the end of the covered period until forgiveness - there is no need to rush!
- ▶ There may be benefit to not being an “early adopter”
  - ▶ Banks will be refining process
  - ▶ SBA and/or congress may reduce required calculations/documentation
- ▶ Many borrowers can conceptually “spend away” reductions
  - ▶ Example: A 92% FTE calculation, thereby requiring an 8% reduction, can still achieve full forgiveness if their incurred payroll cost is above certain amounts.
- ▶ Never lose sight that the SBA and banks WANT to forgive these.
- ▶ Use best judgments and don't get flustered or overthink the problem.

# Forgiveness Documentation & Process

# Forgiveness Documentation

- ▶ The SBA application lists certain documentation required to be submitted and other that is required to be maintained.
- ▶ Lenders may ask for more or less (likely more) than what is listed on the SBA application and borrowers should be prepared for that.
- ▶ Overprepared is likely better than underprepared, but that is more work.

# PPP Loan Documentation - Per Form 3508

PPP Loan Documentation	
Submitted to Lender	
1	PPP Loan Forgiveness Calculation Form (Application)
2	PPP Schedule A
3	<p>Payroll</p> <ul style="list-style-type: none"> <li>a Bank Statements or 3rd Party Payroll Provider reports showing cash compensation to employees</li> <li>b Tax forms (or equivalent) for the periods that overlap with the covered period (or alternative) Form 941 State Tax Forms</li> <li>c Receipts, cancelled checks or account statements documenting employer contributions to health insurance &amp; retirement plans</li> </ul>
4	<p>FTEs</p> <ul style="list-style-type: none"> <li>a Documentation showing FTEs for reference period Payroll tax filings (Form 941 and state tax forms) that may cover longer than covered period.</li> </ul>
5	<p>Nonpayroll</p> <ul style="list-style-type: none"> <li><i>a Business Mortgages</i> Lender Amortization Schedule, proof of payment or lender account statements for period of February 2020 to one month after covered period.</li> <li><i>b Business Rents &amp; Leases</i> Copy of lease agreement and proof of payment, or lessor account statements from February 2020 - one month after covered period</li> <li><i>c Business Utilities</i> Invoices from February 2020 - one month after covered period, proof of payment.</li> </ul>



# PPP Loan Documentation - Per Form 3508

PPP Loan Documentation	
Retained by Borrower	
1	PPP Schedule A Worksheet
2	Documentation Supporting Schedule A Worksheet
	a Documentation "supporting" the listing of each individual in PPP Schedule A, table 1, including the reduction calculation.
	b Documentation "supporting" the listing of each individual in PPP Schedule A, table 2, with attention to proof of pay at an annualized rate of over \$100,000 per year at ANY point in 2019.
	c Documentation for employee job offers, refusals, firings for cause, resignations and voluntary reductions.
	d Documentation supporting the certification, if applicable, that borrower was unable to operate at same level of business activity. As noted, this must include a copy of the requirements and relevant borrower records.
	<i>e Documentation supporting the FTE Safe Harbor calculation</i>

Per SBA, all PPP Loan Documentation (Application, certification of necessity, forgiveness application) should be kept for 6 years after forgiveness or paid in full.

# Forgiveness Process - Lender Review

- ▶ Lenders have 60 days to review the application and issue a decision to the borrower.
- ▶ The lender must
  - (i) Confirm receipt of the borrower certifications (On page 2 of the application).
  - (ii) Confirm receipt of the documentation the borrower submitted to verify payroll and nonpayroll costs.
  - (iii) Confirm various calculations on the SBA Forms
  - (iv) Confirm borrowers calculation that at least 60% was used on payroll costs

# Forgiveness Process - Lender Review

- ▶ The borrower is who is ultimately responsible for the accuracy of the calculations.
- ▶ The lender should do a “good faith, in reasonable time” review of the calculations and supporting documentation.
  - ▶ A “minimal review” of calculations based on a payroll report by a recognized third-party payroll processor would be reasonable.
- ▶ *Lenders may rely on borrower representations*
  - ▶ The borrower is liable, the lender will not have to verify (i.e. use of 3508EZ)
- ▶ Lenders should work with borrowers to correct any insufficient documentation or calculations.

# Forgiveness Process - SBA “Review”

- ▶ The lender informs the SBA of their decision for forgiveness - the lender is the first line of defense
- ▶ The lender must submit to the SBA
  - ▶ Loan Forgiveness Application
  - ▶ Schedule A
  - ▶ Note that the initial documentation does not go to the SBA.
- ▶ The lender must confirm that the information provided accurately reflects the lenders records and it has made its decision in accordance with the SBA regulations.
- ▶ The SBA will remit payment to the lender within 90 days.
- ▶ If the lender determines the borrower is not eligible, the borrower must be informed and they have the right to appeal to the SBA to review.

# Forgiveness Process - SBA “Review”

- ▶ If the SBA is reviewing the loan in depth, it will request the following from the lender
  - ▶ Copy of the loan application form
  - ▶ Loan forgiveness application and all supporting documentation
  - ▶ Transcript of Account
  - ▶ The loan note for the PPP
  - ▶ Other documentation at the SBA request

# Forgiveness Process - SBA Reviews/Audits

- ▶ The SBA still continues to promise/threat to audit loan forgiveness applications for all borrowers whose proceeds exceed 2,000,000.
  - ▶ There has still been no published guidelines or procedures on this, but the SBA has a 6-year statute.
- ▶ This audit is *very* unlikely to occur in the 90-day window after the lender issues its forgiveness decision.
- ▶ The IFR issued on June 1, 2020 (revised June 22, 2020) indicates the SBA Reviews of loans (both over and under 2,000,000) will focus on
  - ▶ Borrower eligibility - the necessity certification
  - ▶ Loan amounts and use of proceeds
  - ▶ Loan forgiveness amounts
- ▶ If the SBA determines a borrower was ineligible, there will be no forgiveness
  - ▶ Which begs the question of will they do this during the 90-day window?

# Tax Considerations

# Key takeaways

- ▶ As a borrower you have up to 10 months after the end of the covered period to apply for forgiveness - there is no rush!
- ▶ Banks are still working out their systems - some only have an invite only system, others are not doing anything yet - and that's ok.
- ▶ The program is largely going to be “self-certification” and the calculations are largely the borrower's responsibility.
- ▶ Remember - the SBA and Banks WANT to forgive these loans if used properly and for the right borrowers.
- ▶ The current understanding is that these expenses will be nondeductible; borrowers should plan accordingly.



# Questions?

Thank you for your attendance. If you have any questions or comments or potentially need assistance with these programs, please feel free to reach out to us