



Applying for Loan Forgiveness

Ollin Sykes, CPA.CITP, CMA

Scott Sykes, CPA, CFP®

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Questions

asksykes@sykes-cpa.com

Outline

- PPP Flexibility Act – Updates to slides in RED
- PPP Recap
- PPP Application Summary & Interim Final Rule on Loan Forgiveness
- Covered Period & Alternative Payroll Covered Period
- Nonpayroll and Payroll Costs
- FTE Reduction
- FTE Reduction Exception
- Salary/Wage Reduction
- Documentation
- Certifications
- IRS Notice 2020-32
- Planning and Unknowns

PPP Flexibility Act (PPPFA)

- Slides updated in RED
- Signed into law 6/4/2020
- Almost unanimous bipartisan support in Congress
- More PPP legislation (corrections, updates) expected in the coming weeks
- SBA and Treasury will have to issue new guidance and a revised application
- PPPFA increases flexibility and provides relief to borrowers

PPP Flexibility Act (PPPFA)

- The eight-week “covered period” has been **extended** to twenty-four weeks
- Borrowers who received their loans prior to the PPPFA, will be able to **elect** the eight-week or twenty-four-week period when applying for forgiveness
- With this change, many pharmacies, who elect the twenty-four-week period, should be able to use 100% of their loans for Payroll Costs which should allow for maximum forgiveness.

PPP Flexibility Act (PPPFA)

- Prior to the PPPFA, 75% of the proceeds were to be used for Payroll Costs, this threshold has changed to 60%
- Therefore, 60% of the loan proceeds must be spent on Payroll Costs to maximize forgiveness while the remaining 40% may be used for Nonpayroll Costs.

PPP Flexibility Act (PPPFA)

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PPP Flexibility Act (PPPFA)

- If a borrower experienced a drop in employment levels or salary/hourly wages, they now have until 12/31/2020 rather than 6/30/2020 to rehire employees and/or return wages to pre-pandemic levels
- Additionally, new options/exceptions for Full-Time Equivalent (FTE) employee reductions are available.
- This again, provides an increased opportunity to maximize the amount of forgiveness.

PPP Flexibility Act (PPPFA)

- Borrowers have more flexibility regarding amounts that must be paid back, including an extended deferral period before payments begin, and a potential increase in the term from two-years to five-years.

PPP Flexibility Act (PPPFA)

- Additionally, the CARES Act allowed for businesses to defer payment of the 2020 employer portion of Social Security tax into 2021 and 2022, this deferral option was not available for those with PPP loans until after the loan had been forgiven
- The PPPFA will now allow a borrower to begin deferral of this tax even if the loan is forgiven prior to 12/31/2020
- We advise everyone to cautiously approach this change – a good rule of thumb with any payroll taxes; always pay and pay timely.

Paycheck Protection Program

- \$600 Billion “loan” program as part of the CARES Act
- Approximately \$100 Billion still available
- Amount spent on applicable expenses over eight-weeks **or twenty-four-weeks** is eligible for forgiveness
- The Application for PPP Loan Forgiveness has been released along with detailed instructions
- Interim Final Rule for Forgiveness released Friday night 5/22/2020
- Safe Harbor FAQ #46 regarding “need”

Paycheck Protection Program

- Rules and guidance incomplete, messy and after-the-fact
- No history to rely on
- Piecemeal guidance makes proactive planning difficult if not impossible
- There are not many “answers”, therefore understand the options and the most reasonable approach
- Consider waiting for more clarity before submitting application for forgiveness

Application Summary

- **Borrower must apply** for forgiveness using this application (Form 3508) or one electronically through their lender after the 8-week **or 24-week** period
- Lender has 60 days to ***decide*** forgiveness upon submission; if more information is requested – another 60 days
- Lender then submits to SBA who has up to 90 days to review the lender's decision
- <https://www.sba.gov/document/sba-form--paycheck-protection-program-loan-forgiveness-application>

Application Summary

- SBA *may* review PPP loans of any size for up to 6 years!
 - Borrower eligibility
 - Loan amount
 - Use of proceeds
 - Loan forgiveness amounts

Application Summary

- Each application has the following components:
 1. PPP Loan Forgiveness Calculation Form (required)
 2. PPP Schedule A (required)
 3. PPP Schedule A Worksheet
 4. PPP Borrower Demographic Information Form (Optional)

Application Summary

- Forgiveness amount is lesser of:
 1. PPP loan amount
 2. Forgivable costs reduced by FTE and/or salary/wage reductions; or
 3. Payroll costs divided by ~~75%~~ 60%



**Paycheck Protection Program
Loan Forgiveness Application**

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 75% Requirement (divide line 1 by 0.75):

Forgiveness Amount

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



**Paycheck Protection Program
Loan Forgiveness Application**

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

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 by Borrower for employer contributions for employee health insurance:

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

Line 8. Total amount paid 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 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 ☐, skip lines 11 and 12 and enter 1.0 on line 13.

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 FTE Safe Harbor is met:

Interim Final Rule on Loan Forgiveness

- 26 pages of narrative based guidance
- Between the Application and the Interim Final Rule, more questions remain
- Supposedly 30 FAQ's will be released any day now.
On hold with PPPFA legislation.
- <https://home.treasury.gov/system/files/136/PPP-IFR-Loan-Forgiveness.pdf>
- <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

Basic Information

- If you haven't already, gather your basic information:
 - SBA PPP Loan Number
 - Lender PPP Loan Number
 - PPP Loan Amount
 - Employees at Time of Loan Application
 - Employees at Time of Forgiveness Application
 - PPP Loan Disbursement Date
 - EIDL Advance Amount
 - EIDL Application Number
 - Payroll Schedule

Covered Period

- “Covered Period” begins the day of the loan disbursement and extends eight-weeks (56 days) **or twenty-four-weeks (156 days)** (see prior slides PPPFA)
 - If the PPP Disbursement Date is 4/15/2020, Covered Period is 4/15/2020 to 6/9/2020 (8-Week)
 - **If the PPP Disbursement Date is 4/15/2020, Covered Period is 4/15/2020 to 9/29/2020 (24-Week)**
- Costs can be paid *or* incurred within the eight-week (**or twenty-four week**) period to be eligible for forgiveness, a difference from the statutory language of the CARES Act

Incurred or Paid – Nonpayroll Costs

- Expenses for interest, rent and utilities as defined in the rules, will be forgivable if:
 - Paid during the Covered Period; or
 - 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

Alternative Payroll Covered Period

- Borrowers can choose the eight-week Covered Period for payroll to begin on the first day of the first pay period after the Disbursement Date (Alternative Payroll Covered Period)
- **Option** for borrowers that is available **only** for Payroll Costs
- **Is only applicable for those with weekly and bi-weekly payroll processing**
- *Currently, no guidance on how the twenty-four-week period will impact this but assume twenty-four-weeks from first pay period after Disbursement Date*

Alternative Payroll Covered Period Example

- PPP Disbursement Date 4/15/2020
- First day of your next payroll period is 4/22/2020
- Borrower may elect to count the Payroll Costs for the eight-week period beginning 4/22/2020 rather than 4/15/2020
- *Again, no guidance on how this would work with twenty-four-week period but would assume drop in twenty-four-weeks rather than eight*

Incurred or Paid – Payroll Costs

- Payroll Costs incurred but not paid during the Borrower's last pay period of the "Period" are eligible for forgiveness if paid on or before the next regular payroll date.
- Payroll costs are considered paid on the day that paychecks are distributed, or the borrower originates an ACH credit transaction.
- Consider what is "incurred" and consider prepaying payroll in those instances
- *The twenty-four-week period will likely ease any planning concerns, many pharmacies will be able to utilize all funds over that period*

Nonpayroll Costs

- Nonpayroll costs include Mortgage Interest, Rent, and Utilities
- Nonpayroll costs eligible for forgiveness if:
 - Paid during covered period; *or*
 - 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
- Prepaid expenses not addressed except for Mortgage Interest, which is not allowed (prepaid)

Mortgage Interest

- Mortgage interest secured by real or personal property
- Debt must have been incurred prior to 2/15/2020
- Does not include prepayment or principal
- Non-mortgage interest is an eligible PPP cost however, is NOT eligible for forgiveness

Utilities

- Electricity
- Telephone
- Gas
- Transportation – *still no clarification here*
- Water
- Internet
- Service must have been in place before 2/15/2020

Rent

- Rent or lease payments for real or personal property
- Agreement must have been in place before 2/15/2020
- If no agreement, will a “memorialize and ratify” lease document be sufficient?
- Still no clarity on related-party rent
- Mortgage Interest, Utilities and Rent costs may not exceed ~~25%~~ 40% of the forgiveness amount

Payroll Costs

- Compensation to employees whose principal place of residence is in the US
 - Salary
 - Wages
 - Commissions, or similar compensation (hazard pay)
 - Cash tips or equivalent
 - Payment for vacation, parental, family, medical or sick leave
 - Allowance for separation or dismissal

Payroll Costs

- Compensation eligible for forgiveness may not exceed an annual salary of \$100,000 or \$15,385 during the eight-week period *(No guidance if twenty-four-week limit will be \$46,153.85 (24 week equivalent of 100,000))*
- This \$100,000 limit does not include group health and retirement paid by the employer *(generally)*
- Does **not** include independent contractors (1099)
- FFCRA (COVID) sick leave or family leave may **not** be included in Payroll Costs

Payroll Costs

- Bonuses to employees count as an eligible loan expense provided the total compensation does not exceed the \$100,000 limit. *Consider reasonableness here.*
- Wages, compensation, etc. paid to furloughed employees is eligible for forgiveness not to exceed the \$100,000 limit
- For those employees who are not working but still being paid, payroll costs are incurred based on the schedule when the employee WOULD have worked

Payroll Costs

- Employee group health care coverage paid by the employer (*see limits on self-employed, owners, partners*)
- Retirement expenses for employee paid by the employer (*see limits on self-employed, owners, partners*)
- State and local taxes assessed on compensation of employees
- Does **not** include employer portion of payroll tax (Medicare/Social Security Tax)

Payroll Costs

- **Owner-employees/self-employed** are capped, across all businesses, at the lessor of:
 - \$100,000 annualized/\$15,385 (eight-week max); or
 - The eight-week equivalent of their applicable compensation for 2019
- “Owner-Employee” not defined - assume S Corp and *maybe* C Corp owners
- *See previous slide on the unknowns with regard to the twenty-four-week equivalent of \$100,000*

Payroll Costs

- **Schedule C filers** – capped by the amount of their owner comp. replacement, calculated based on 2019 net profit
- No additional forgiveness is provided for retirement or health insurance contributions

Payroll Costs

- **General partners** are capped by:
 1. The amount of their 2019 net earnings from self-employment
 2. Reduced by Section 179 depreciation, unreimbursed partnership expenses
 3. Multiplied by .9235
- No additional forgiveness is provided for retirement or health insurance contributions for self-employed individuals as those expenses are paid out of their net self-employment income

Payroll Costs

- Payroll Costs divided by ~~75%~~ **60%** is your MAXIMUM forgiveness
 - \$100,000 PPP Loan Amount
 - **\$55,000 Payroll Costs**
 - \$30,000 Nonpayroll Costs
 - **Max Forgiveness is \$91,667 (\$55,000 / 60%), \$8,333 will be paid back**
- Will Congress modify this 75% requirement?? **YES, 60%**

Full-Time-Equivalent (FTE)

- FTE's used to determine any reduction in forgiveness
- SBA wants to know if you had fewer employees over the Covered Period than before the pandemic, if not, no reduction
- If lower FTEs than before the pandemic, there may be a reduction in forgiveness since the PPP wasn't used to keep people employed

Full-Time-Equivalent (FTE)

- For **each** employee, calculate the average number of hours worked per week and divide by 40 and round to the nearest tenth
- Maximum FTE per employee is 1
- Can use alternative method and select “1” for everyone who worked 40 hours or more per week and “0.5” for those that did not
- Method chosen must be consistent throughout the application

Full-Time-Equivalent (FTE)

- Borrowers will need to measure FTE's for several periods:
 - Eight-week Covered Period or Alternative Payroll Covered Period
 - 2/15/2019 to 6/30/2019
 - 1/1/2020 to 2/29/2020
 - Payroll that includes 2/15/2020
 - Average FTE's for 2/15/2020 to 4/26/2020
 - 6/30/2020

Full-Time-Equivalent Reduction

- Start by calculating the FTEs over the Covered Period
- Then, calculate your reference period (elect a period):
 - FTEs over 2/15/2019 – 6/30/2019; **or**
 - FTEs over 1/20/2020 – 2/29/2020
- Forgiveness is reduced if your average FTEs during the Covered Period is less than the average number of FTEs for any of the periods above (borrower elects)
- An FTE reduction decreases the loan forgiveness amount by the same percentage as the percentage reduction in FTE employees

FTE Reduction – Example

- 8 FTEs over the Covered Period
- FTE's over the reference periods (elect a period):
 - 10 - FTEs over 2/15/2019 – 6/30/2019; or
 - 12 - FTEs over 1/20/2020 – 2/29/2020
- Forgiveness is reduced if your average FTEs during the Covered Period is less than the average number of FTEs for any of the periods above (borrower elects)
- $8 / 10 = 80\%$ of eligible expenses are available for forgiveness
- Borrowers should choose the lowest reference period

FTE Reduction – Safe Harbor

- Reduction not required if “safe harbor” is met
- Calculate the FTEs for 2/15/2020 - 4/26/2020; **and**
- Calculate the FTEs for the pay period which includes 2/15/2020
- If the average FTEs for the first period (2/15/2020 – 4/26/2020) is < the FTEs for second period (2/15/2020), borrower then must compare the second period to the FTEs as of 6/30/2020
- If the 6/30/2020 FTEs are greater than the FTEs on 2/15/2020 then the safe harbor is met, no reduction

Salary/Wage Reduction

- Applies to **each** employee who was not paid an annualized salary or wage of more than \$100,000 for any single pay period in 2019
- A reduction of employee salary or wage will reduce loan forgiveness amount *if* salary or wage is reduced by > 25% during eight-week period vs. period 1/1/2020 thru 3/31/2020
- Only applies to a decline in employee salary and wages that is **not** attributable to the FTE reduction

Salary/Wage Reduction Example

- Employee's full-time weekly salary dropped from \$1,000/week during reference period to \$700/week during covered period
- Continued to work full-time during covered period with FTE of 1.0
- The first \$250 (25% of \$1,000) is exempted from the reduction
- Borrower would show \$400 as salary/hourly wage reduction for that employee (extra \$50 times eight-weeks)

Salary/Wage Reduction – Safe Harbor

- Reduction not required if “safe harbor” is met
- Calculate average annual salary or hourly wage as of 2/15/2020
- Calculate average annual salary or hourly wage as of 2/15/2020 – 4/26/2020
- If average salary/wage dropped over 2/15/2020 – 4/26/2020 from the 2/15/2020 reference point, calculate average annual salary or hourly wage as of 6/30/2020
- If 6/30/2020 is > 2/15/2020 – safe harbor is met

Reduction Exception

- If borrower offered to rehire or restore a reduction in hours to an employee but the employee declined the offer, there is a reduction exception if borrower can establish the following:
 - A **good-faith, written offer to rehire an employee** during the Covered Period or the Alternative Covered Period which was rejected by the employee; and
 - Any employees during the Covered Periods above, were **fired for cause, voluntarily resigned, or voluntarily requested and received a reduction of their hours**
- **Borrower must inform the applicable state unemployment insurance office of the rejected offer or reemployment within 30 days**
- *See PPPFA for more exceptions to the FTE reduction. More to come here.*

Documentation

- Payroll Costs
 - Bank statements or third-party payroll service provider reports
 - Tax forms or equivalent third-party provider reports
 - Payment receipts, cancelled checks or account statements documenting health insurance and retirement paid

Documentation

- Mortgage Interest:
 - Lender amortization schedule; and
 - Receipts or cancelled checks; or
 - Lender account statements from 2/2020 and the months of the Covered Period through one month after the end of the Covered Period

Documentation

- Rent or Lease:
 - Copy of current lease agreement; and
 - Receipts or cancelled checks; or
 - Lessor account statements from 2/2020 and from the Covered Period through one month after the end of the Covered Period

Documentation

- Utility:
 - Copy of invoices from 2/2020 through the Covered Period; and
 - Receipts, cancelled checks or account statements

Documentation

- Must submit documentation to receive forgiveness
- Documentation that you must maintain but are **not required** to submit:
 - PPP Schedule A Worksheet or its equivalent including all supporting tables/calculations/FTE safe harbor
 - Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations and written request by any employee for reductions in work schedule
- Must retain all documentation for six years after the date of forgiveness or amount repaid in full

Certifications

- Must certify that the requested forgiveness amount:
 - Was used to pay costs that are eligible for forgiveness,
 - Includes all applicable reductions,
 - Does not include nonpayroll costs in excess of ~~25%~~ 40% of the requested amount; and
 - Does not exceed eight-weeks' worth of 2019 comp. for any owner-employee or self-employed individual capped at \$15,385 (*Will this be \$466,153.84 or the twenty-four-week equivalent of \$100,000?*)

Certifications

- Must certify that you have submitted the required documentation
- Must certify that all information is true and correct
- Must acknowledge that the SBA may request additional information and your intention to provide any additional information

IRS Notice 2020-32

- Any expenses paid by a borrower – to the extent those amounts are ultimately forgiven by the lender on a tax-free basis – will not be deductible on the borrower's 2020 tax return
- Eliminates “double-dipping”
- Congress *may* amend IRS Code Section 265 to reverse the IRS ruling – *remains to be seen*

Tips

- Complete your narrative to support your need for the PPP funds
- Loan forgiveness is not guaranteed, a complete application with proper documentation is necessary
- Spend proceeds on eligible expenses that are known first
- Set up separate bank account and account for funds carefully
- Consider prepaying items with the downside, they won't count

What We Don't Know

- Bonuses to related parties
- Related party rent
- Self insured health plans
- Retirement plan expenses i.e. 2019 costs
- Clearer definitions for nonpayroll costs
- What **additional** changes will Congress or SBA implement? ~~i.e. 75% Payroll Cost test or change 8-week period~~

Questions?

Asksykes@sykes-cpa.com

SYKES & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

WWW.SYKES-CPAS.COM

