PPP Loan Forgiveness Rules Summary and CARES Act Roundtable Discussion
Roundtable Discussion Participants

Host & Moderator

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Roundtable Discussion Members

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Insights³
REMINDER: What costs qualify for forgiveness?

- Payroll Costs (wages, health ins, retirement benefits ...)

- Non-Payroll Costs*
  - Rent / Lease Payments
  - Utilities
  - Mortgage Interest (and secured personal prop loans)

* NEW RULE: Non-payroll costs cannot exceed 40% of total forgiveness amount. (see Appendix A for example of rules if non-payroll costs exceed 40% of loan amount) Leases, loans and utility service agreements must predate February 15, 2020

PPP Loan Forgiveness Summary
PPP Loan Forgiveness Summary

REMINDER: “Final” Payroll:

- Payroll costs incurred but not paid during the Covered Period can be paid on or before the next regular payroll date after the end of the Covered Period

Example:

- Covered Period ends on Oct 5
- Bi-weekly pay period runs from Sept 27 to Oct 10
- Sep 27 – Oct 5 payroll qualifies if paid with Oct 10th normal payroll
PPP Loan Forgiveness Summary

Owner Employees, Self-Employed & General Partners Payroll:

- 8-week cap: $15,385

24-week cap is lesser of:
- $20,833
- 2.5 months of 2019 compensation

S-Corp Owner Employees, Self-Employed & General Partners Health Insurance:

- Exclude Health Insurance from their “payroll” calculation
PPP Loan Forgiveness Summary

REMINDER: Non-Payroll Costs must be:

- 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.

Example:
Covered Period runs from May 1 – Oct 15
- Electric for Apr 15 – May 14 is paid on May 24\(^{th}\) (forgivable)
- Electric for Oct 1 – Oct 31 is paid when due on Nov 15\(^{th}\)
  *Prorate for Oct 1 – 15*
- Rent for May is pre-paid in April
  *Does not qualify. Ask landlord to refund the rent and re-pay in May*
PPP Loan Forgiveness Summary

Due Date for Application Filing:
- Must file within 10-months after end of Covered Period to receive loan forgiveness

Taxability:
- Forgiveness amount is not taxable
- Expense paid with forgiven PPP loan proceeds are not deductible (IRS Notice 2020-32)
Reductions in Loan Forgiveness for Layoffs & Wage Reductions

Loans of $50,000 or less

- No forgiveness reductions for layoffs or wage cuts

- File form 3508S
Reductions in Loan Forgiveness for Layoffs & Wage Reductions

Loans Greater than $50,000

FTE Safe Harbors

- Employee FTE Headcount Restoration Rule (no change)
  - Layoffs occurred between Feb 15th and April 26th; and
  - Employee FTE level restored by Dec 31st to FTE levels for the pay period that includes Feb 15th

- Can’t return to Feb 15th FTE levels due to Covid-19 rules or guidelines issued by HHS, CDC or OSHA
Reductions in Loan Forgiveness

HR Issues: No FTE Reduction if employee:

- Document inability to rehire staff employed on Feb 15th AND can’t find similarly qualified individuals by Dec 31st
- Employee declines written offer to restore hours or wages
- Voluntarily resigns
- Terminated for cause
- Requested hours reduction

AND

Position is not filled by a new employee
PPP Loan Forgiveness Summary

What to file?

- Most banks will provide you with an online form
- 3508S: Loans $50K or under
- 3508EZ:
  - Self-employed
  - No wage reductions in excess of 25% AND
    - No reduction in number of employees or average paid hours from Jan 1 through end of Covered Period; OR
    - Can’t operate at Feb 15th level due to Covid rules/guidelines from HHS, CDC or OSHA
# SUBMITTED Documentation

<table>
<thead>
<tr>
<th>Payroll</th>
<th>FTE</th>
<th>Non-Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank account statement for CP or APCP (if elected)</td>
<td>Reference Period FTE (Select one of following)</td>
<td>Documents verifying loan, lease or service (i) started prior to Feb 15; and, (ii) includes the Covered Period</td>
</tr>
<tr>
<td>Payroll service reports for applicable CP or APCP</td>
<td>• Ave FTE/month from 2/15/19 – 6/30/19</td>
<td>Mortgage/Secured Loans and Leases Copies of:</td>
</tr>
<tr>
<td>Payroll tax filings (941’s and 1028’s) for applicable CP or APCP</td>
<td>• Ave FTE/month from 1/1/20 – 2/29/20</td>
<td>• LOANS: Lender amort schedule</td>
</tr>
<tr>
<td>Payment verifications (e.g. cancelled checks, payroll service reports)</td>
<td>• SEASONAL: Either of above or any consecutive 12-weeks between 5/1/19 – 9/15/19</td>
<td>• LEASE: Lease agreement</td>
</tr>
<tr>
<td>Account statements documenting employer contributions to health and retirement plans included in “Payroll” calculations</td>
<td>SELECT PERIOD WITH LOWEST FTE VALUE</td>
<td>• Receipts, cancelled checks or account statements verifying payments (statements for Feb through month following the end of Covered Period)</td>
</tr>
<tr>
<td></td>
<td>Include 941’s and 1028’s for selected Reference Period</td>
<td>Utilities</td>
</tr>
</tbody>
</table>

- Copies of invoices from Feb through those included in the Forgiveness calculation (lines 2 - 4 of PPP Forgiveness Application)
- Receipts, cancelled checks or account statements verifying payment
### Retained Documentation

**PPP Schedule A worksheet**

Documentation supporting the listing of each employee in PPP Schedule A worksheet

- Table 1: Salary/Hourly reduction calculations
- Table 2: Employee received during any single 2019 pay period compensation at an annualized rate > $100,000

Firing for cause, voluntary resignations and written request for reduced work schedule

Inability to rehire individuals employed on Feb 15\(^{th}\) AND can hire similarly qualified individuals

HHS, CDC or ASHO requirements or guidelines that reduced FTEs below Feb 15\(^{th}\) levels

Documentation supporting “FTE Reduction Safe Harbor” (if applicable)

Copy of PPP loan application (including all attachments)

Documentation demonstrating compliance with PPP requirements

Documents must be retained for 6-years from the later of date loan is forgiven or repaid in full
PPP Loan Forgiveness Summary
Appendix A: Non-Payroll Costs Exceed 40% of Loan

Facts – Borrower receives $100,000 PPP loan and spends $54,000 on payroll and $46,000 on non-payroll forgivable costs.

The borrower’s non-payroll cost cap (i.e. 40% of the loan) is reduced by the same percentage as the borrower fell short of spending 60% of the loan for qualifying payroll costs. Let’s call this 60% test the payroll cost minimum. In our example, the borrower’s payroll cost minimum is $60,000 (60% x $100,000 = $60,000); however, the borrower spent only 90% of this $60,000 minimum ($54,000 / $60,000 = 90%). Hence, the borrower will be forgiven only 90% of its non-payroll cost cap. Remember, non-payroll costs are capped at 40% of the loan which, in our example is $40,000 (40% x $100,000 loan) Since our borrower only spent 90% of the payroll cost minimum, it’s non-payroll costs will be limited to the lesser of: (i) the amount spent for qualified non-payroll costs; or (ii) 90% of its non-payroll cap which is $36,000. (40% cap x $100,000 loan = $40,000 non-payroll cost cap x 90% = $36,000). Now, wasn’t that fun and easy. Below is a chart summarizing these calculations.

<table>
<thead>
<tr>
<th>Loan Amt: $100,000</th>
<th>Amt Spent</th>
<th>Forgiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Cost (min 60%)</td>
<td>$54,000</td>
<td>$54,000</td>
</tr>
<tr>
<td>Non-Payroll (max 40% of payroll)</td>
<td>$46,000</td>
<td>$36,000</td>
</tr>
<tr>
<td>Total</td>
<td>$100,000</td>
<td>$90,000</td>
</tr>
</tbody>
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