

# A First Look at Applying for PPP Loan Forgiveness

Ted R. Batson, Jr., Partner and Tax Counsel  
5.19.20



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## Theme for today. . .

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There is still a lot we don't know!  
But now we know some things.

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## PPP Loan Forgiveness Overview

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- Starting Point: The SBA has now provided a [loan forgiveness application](#)
- File your application with the lender servicing your loan
  - This may be a lender other than the lender who processed your loan
  - SBA will review and determine the loan forgiveness amount
- Forgiveness is available based on qualifying expenses
- The lender/SBA has 60 days to process your forgiveness application
- Treasury and the SBA have promised more guidance

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## PPP Loan Forgiveness Basics

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- What are qualifying expenses?
  - Payroll costs
  - Mortgage interest
  - Rent
  - Utilities

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## PPP Loan Forgiveness: Payroll Costs

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- Salary, wages, commissions, and other similar compensation
  - Start with **gross pay** (FAQ 16)
  - Don't include the employer's share of FICA/Medicare or FUTA (FAQ 16)
    - But include the employee's share and income tax withheld
  - Don't include amounts in excess of an annualized \$100,000 per employee
    - This limit does not apply to health insurance, retirement benefits, and state taxes (more on these in a minute)
    - This means the maximum amount of salary and wages that can be included for the Covered Period is \$15,385
      - $\$100,000 \div 52 \times 8 = \$15,385$

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## PPP Loan Forgiveness: Payroll Costs (continued)

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- Salary, wages, commissions, and other similar compensation (continued)
  - Don't include amounts paid to independent contractors (i.e., 1099 employees) (FAQ 15)
  - Don't include wages of employees whose principal place of residence is outside the U.S.
    - See [Treas. Reg. § 1.121-1\(b\)\(2\)](#) for principles for making this determination (FAQ 33)
  - Don't include wages for which you received credits under the FFCRA for paid FMLA benefits or paid sick leave benefits

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## PPP Loan Forgiveness: Payroll Costs (continued)

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- Salary, wages, commissions, and other similar compensation (continued)
  - Include the minister's housing allowance (FAQ 32)

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## PPP Loan Forgiveness: Payroll Costs (continued)

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- Cash tips or their equivalent
- Payments for vacation, parental, family, medical, or sick leave
  - But not wages for which you received credits under the FFCRA for paid FMLA benefits or paid sick leave benefits
- Severance/separation payments

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## PPP Loan Forgiveness: Payroll Costs (continued)

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- What about bonuses, merit increases, pay raises due to promotions, and hazard pay?
  - No guidance yet directly addressing these items
  - **Guiding Principle:** It is unlikely that expenses created solely for the purpose of loan forgiveness will meet the criteria for forgiveness.
    - What reason other than merely expending PPP loan funds justifies the payment?
  - Payments made during the Covered Period to make up for reductions in hours during the Covered Period or reductions in pay related to the Covered Period should be fine

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## PPP Loan Forgiveness: Payroll Costs (continued)

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- **Employer** payments for group health care benefits, including insurance premiums
  - We don't have guidance regarding employer contributions to:
    - A QSEHRA
    - An ICHRA
    - An EBHRA
    - HSA coupled with a HDHP
  - We don't have guidance regarding computing the includible costs of a self-insured group health plan
  - Prepaid premiums will likely **not** be includible in forgivable payroll costs

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## PPP Loan Forgiveness: Payroll Costs (continued)

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- **Employer** contributions to retirement plans
  - Seems clear that contributions to a 403(b) or 401(k) plan qualify for a defined benefit pension plan
  - Less clear about 457(b) plans, 457(f) plans, profit-sharing plans
- Payments of state and local taxes assessed on employee compensation
  - Probably **doesn't include** workers comp
  - Probably **doesn't include** payments to the state unemployment agency by reimbursing employers

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## PPP Loan Forgiveness: Mortgage Interest

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- Mortgage interest is included
  - Mortgage must have been in place on February 15, 2020
  - Do not include mortgage principal, including prepayment of principal, or prepaid mortgage interest
  - Construction loan interest should qualify if the loan is secured by the property and construction in progress
  - Interest on loans secured by equipment and other types of tangible personal property is included
    - Company car
    - Office equipment

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## PPP Loan Forgiveness: Rent

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- Rent is included
  - Lease agreement must have been in place on February 15, 2020
  - Lease payment on both real property (i.e., your building) and equipment and other types of tangible personal property is included
    - Company car
    - Copier lease
    - Postage meter lease

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## PPP Loan Forgiveness: Utilities

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- Utilities include payments for:
  - Electricity
  - Gas
  - Water
  - Transportation
    - We don't have guidance as to what is included here
  - Telephone
    - Should include company cellphones contracts
    - We don't know if this includes allowances for BYOD
  - Internet access
    - We don't know if this includes allowances for an employee's home Internet service

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## PPP Loan Forgiveness: Utilities (continued)

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- We don't know but have some confidence that sewer payments would be included
- We don't know if trash collection is includible

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## Overview of the Loan Forgiveness Application

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- The application includes:
  - A core form that arrives at the forgiveness amount
  - Schedule A – computes
    - Payroll costs net of the salary and wage reduction amount
    - Full-Time Equivalency Reduction Quotient
  - Schedule A Worksheet gathers FTE and salary/wage reduction information for each individual employee
  - Borrower Demographic Form
    - Generally not applicable to nonprofits

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## Overview of the Loan Forgiveness Application

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- The loan forgiveness application is submitted to the lender servicing your loan at the time you apply for forgiveness
  - However, the SBA will make the ultimate loan forgiveness amount determination
- Your lender may use an electronic application
- There are a number of certifications you are required to make
  - None of these should create the level of anxiety created by the loan application certification regarding need

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## The Covered Period

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- What is the **covered period**?
  - An eight-week period that commences on the date the lender makes the first disbursement
    - Includes the date of disbursement
    - Loan disburses on 4/20/20, last day of covered period is 6/14/20
  - This is the period during which you need to track qualifying expenses
- The PPP Loan Forgiveness Application creates a new “Alternative Payroll Covered Period”
  - This period aligns with the start of the first payroll period following PPP loan disbursement
  - It only applies to payroll expenses

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## The Covered Period (continued)

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- Alternate Payroll Covered Period example
  - Borrower receives its PPP loan proceeds on Monday, April 20
  - The first day of the borrower's first pay period following its PPP loan disbursement is Sunday, April 26
  - The first day of the Alternative Payroll Covered Period is April 26 and the last day of the Alternative Payroll Covered Period is Saturday, June 20

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## PPP Loan Forgiveness: Incurred and Paid

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- CARES Act section 1106(b) states that forgiveness is available for “costs incurred and payments made during the covered period”
- The forgiveness application instructions state:
  - **Eligible payroll costs** are “payroll costs paid and payroll costs incurred” during the selected eight-week (56-day) period
  - **Payroll costs** are considered incurred on the day that the employee's pay is earned
    - Payroll costs incurred but not paid during the last pay period of the Covered Period are eligible for forgiveness if paid on or before the next regular payroll date

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## PPP Loan Forgiveness: Incurred and Paid

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- CARES Act section 1106(b) states that forgiveness is available for “costs incurred and payments made during the covered period”
- The loan forgiveness application now provides the following rules:
  - **Payroll costs** are considered incurred on the day that the employee’s pay is earned
    - Payroll costs incurred but not paid during the Borrower’s last pay period of the Covered Period are eligible for forgiveness if paid on or before the next regular payroll date

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## PPP Loan Forgiveness: Incurred and Paid

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- **Example:**
  - Covered Period begins on April 20, 2020
  - The next bi-weekly pay period end date is Saturday, April 25, 2020
  - Pay earned on April 20-April 25 is includible in payroll costs during the Covered Period
- **Example:**
  - Covered Period ends on June 14, 2020
  - The next bi-weekly pay period end date after June 14, 2020 is June 20, 2020
  - Pay earned between June 6 and June 14 is includible if paid on June 20

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## PPP Loan Forgiveness: Incurred and Paid

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- Bottom Line: Only 56 days are includible
- See the article for some additional examples describing when days worked are paid in arrears

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## PPP Loan Forgiveness: Incurred and Paid

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- Payroll costs are “paid” on the date:
  - Paychecks are distributed
  - ACH credit transactions in favor of employees are originated
- Non-payroll costs incurred during the Covered Period but paid on the first regular billing date after the Covered Period are included
  - The instructions state that non-payroll costs paid during the Covered Period are included
    - This should probably state “incurred and paid during the Covered Period”
  - The instructions do **not** address the inclusion of non-payroll costs paid in advance of but incurred during the Covered Period

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## The 75% Payroll Cost Rule

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- The First Interim Final Rule requires that at least 75% of the PPP loan proceeds be used for payroll costs
- Forgiveness will be denied only to the extent this isn't the case
  - Assume you borrowed \$100,000 but only spent \$70,000 on payroll costs
  - \$70,000 is 75% of what number?
    - $\$70,000 \div 75\% = \$93,333.33$
  - Assuming mortgage interest, rent, and utility payments of at least \$23,333.33, the maximum loan forgiveness amount is \$93,333.33
    - This assumes no salary/wage reduction or FTE reduction

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## Salary and Wage Reduction Amount

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- The calculation looks at whether there has been a greater than 25% change in an employee's annual salary or hourly wage during the Covered Period when compared to Q1 2020
  - Because the rule is phrased in terms of "annual" salary and "hourly" wage, it appears the initial focus is on a change in the **rate of pay** and not in dollars paid
- Employees who received salary or wages in excess of \$100,000 on an annualized basis *during any pay period in 2019 are excluded*
  - The reference to salary and wages in this exclusionary rule would seem to ignore bonuses

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## Salary and Wage Reduction Amount (continued)

### Example

Employee	Method of Pay	Average Rate of Pay		
		Covered Period	Prior Calendar Qtr	Change in Rate of Pay
John	Salary	\$55,000/year	\$77,000/year	(28.57%)
Sue	Salary	\$85,000/year	\$90,000/year	(5.56%)
Ellen	Salary	\$65,000/year	\$65,000/year	0.00%
Mary	Hourly	\$17.50/hour	\$27.50/hour	(36.36%)
Bill	Hourly	\$22.00/hour	\$25.00/hour	(12.00%)
Steve	Hourly	\$23.00/hour	\$23.00/hour	0.00%

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## Salary and Wage Reduction Amount (continued)

### Example

	John	Mary
(a) Average rate of pay for prior quarter	\$77,000/year	\$27.50/hour
(b) 75% of Prior Calendar Qtr Rate of Pay	\$57,750/year	\$20.63/hour
(c) Average rate of pay for the Covered Period	\$55,000/year	\$17.50/hour
(d) Row (b) less row (c)	\$2,750	\$3.13/hour
(e) For salaried workers, multiply the result in row (d) by 8 and divide the result by 52	$\$2,750 \times 8 \div 52 = \$423$	
(f) Average hours worked per week in the Prior Calendar Quarter		40
(g) Multiply the amount on row (f) by the amount on row (d)		\$125
(h) multiply the amount on row (g) by 8		\$1,002

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## Computing Full-Time Equivalent Employees (FTEs)

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- The forgiveness application instructions describe a process for computing FTEs
  1. For each employee, determine the number of hours paid each week during the period
  2. For each employee, compute the average number of hours paid per week
  3. For each employee, divide the amount from Step 2 by 40, rounding the result to the nearest tenth
    - The result cannot be greater than 1
  4. Sum the amounts computed in Step 3

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## Computing Full-Time Equivalent Employees (FTEs) (continued)

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- The instructions provide for a simplified method
  - Employees who work 40 or more hours per week count as 1
  - Employees who work fewer than 40 hours per week count as 0.5
  - This approach will only produce a satisfactory answer if the number of employees in total and the number of hours worked by all employees are stable across all time periods referenced

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## Computing Full-Time Equivalent Employees (FTEs) (continued)

### Example

Employee Name	Hours Worked Per Week								Avg. Hours Worked Per Week	Avg. FTEs over Covered Period
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8		
John	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	1.0
Sue	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	1.0
Ellen	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	1.0
Mary	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	1.0
Bill	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	0.6
Steve	12.00	15.00	10.00	14.00	17.00	20.00	12.00	15.00	14.38	0.4
Sally	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	1.0
<b>Totals:</b>	237.00	240.00	235.00	239.00	242.00	245.00	237.00	240.00	239.38	6.0

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## Computing Full-Time Equivalent Employees (FTEs) (continued)

- FTE computations are required for:
  - The Covered Period or, if elected, the Alternative Payroll Covered Period
  - The reference period you select (see below)
  - The payroll period that includes February 15, 2020
  - The period February 15, 2020 through April 26, 2020
  - June 30, 2020

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## FTE Reduction Quotient (Headcount Reduction Factor)

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- This is a fraction computed using the following formula:  
$$\text{FTE Reduction Quotient} = \frac{\text{FTE during Covered Period}}{\text{FTE during reference period}}$$
- This fraction is multiplied times the **total forgivable costs** to arrive at the loan forgiveness amount
- The permissible reference periods are:
  - February 15, 2019 to June 30, 2019
  - January 1, 2020 to February 29, 2020
  - (For seasonal employers only) any twelve-week consecutive period between 05/01/2019 and 09/15/19
- Use the reference period that gives you the best result

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## FTE Reduction Quotient (Headcount Reduction Factor) (continued)

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- Example
  - Assume the following FTE headcounts:

• Covered Period	30.2
• February 15, 2019 to June 30, 2019	29.3
• January 1, 2020 to February 29, 2020	31.5
  - February 15, 2019 to June 30, 2019 FTERQ
    - $30.2 \div 29.3 = 1.03$ , which by rule converts to 1.0.
  - January 1, 2020 to February 29, 2020 FTERQ
    - $30.2 \div 31.5 = 0.9587$

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## FTE Reduction Safe Harbor

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- There is an exception to the application of the FTE Reduction Quotient
  1. Compute your FTE headcount for the payroll period that includes February 15, 2020
  2. Compute your FTE headcount for the period February 15, 2020 and April 26, 2020
  3. If the FTE headcount in Step 2 is less than the FTE headcount in Step 1, you had a decrease in headcount and must proceed to Step 4
  4. Compute your FTE headcount at June 30, 2020
    - The instructions omit a reference to “the payroll period that includes June 30, 2020”

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## FTE Reduction Safe Harbor

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5. If the FTE headcount in Step 4 is greater than or equal to the FTE headcount in Step 1, you are eligible for the safe harbor
- There is still no guidance for organizations with preschools or private schools that have a natural drop-off in employment coincident with the end of the school year

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## Economic Injury Disaster Loan (EIDL) Advance

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- The CARES Act provides for up to a \$10,000 advance upon application for an EIDL
  - The advance is not required to be repaid, even if the EIDL loan is denied
  - The PPP Loan Forgiveness Application requires that you provide the amount of any EIDL advance received
    - The SBA will reduce your forgiveness amount by the amount of your EIDL advance

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## PPP Loan Forgiveness: Separate Account?

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- Neither the CARES Act nor the Interim Final Rule require a separate account
- Reasons to use a separate account
  - Improved accountability for loan forgiveness documentation
    - Only release funds against documented qualifying expenses
  - Unused funds are available for repayment

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## PPP Loan: Deferral Options

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- Interest and principal payments are deferred for the first six months
  - Interest accrues, but is forgiven if the principal is forgiven
  - We don't know what will happen if the loan is only partially forgiven
- After six months, the balance continues on at 1% interest for the remainder of the two-year term

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## PPP Loan Forgiveness: Documentation

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- **Payroll documentation** to submit with your application
  - Bank statements and/or payroll registers from your payroll service showing cash compensation paid
  - Form 941
  - Income, payroll, and unemployment tax filings with state authorities
  - Payment receipts, canceled checks, or account statements along with invoices supporting:
    - Health insurance premiums paid
    - Retirement plan contributions

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## PPP Loan Forgiveness: Documentation (continued)

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- **FTE reduction documentation** to submit with your application
  - Average hours worked for each employee for the Covered Period
  - Average hours worked for each employee for the selected headcount reduction reference period
- **Salary and wage reduction documentation** to retain but not submit
  - Rates of pay during Q1 2020
  - Rates of pay during the Covered Period

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## PPP Loan Forgiveness: Documentation (continued)

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- **FTE reduction safe harbor documentation** to retain but not submit
  - Average hours worked for each employee for the pay period including February 15, 2020
  - Average hours worked for each employee for the period February 15, 2020 through April 26, 2020
  - Average hours worked for each employee at June 30, 2020

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## PPP Loan Forgiveness: Documentation (continued)

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- **Mortgage interest documentation** to submit with your application
  - Canceled checks or payment receipts
  - Lender amortization schedule
  - Mortgage statements from February 2020 through the month after the end of the Covered Period
- **Rent documentation** to submit with your application
  - Current lease agreement
  - Receipts, canceled checks or electronic payment confirmations
  - Lessor account statements from February 2020 through the month after the end of the Covered Period

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## PPP Loan Forgiveness: Documentation (continued)

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- **Utility documentation** to submit with your application
  - Invoices from February 2020 through the month after the end of the Covered Period
  - Receipts, canceled checks or electronic payment confirmations, or account statements
- These documentation requirements are mandatory

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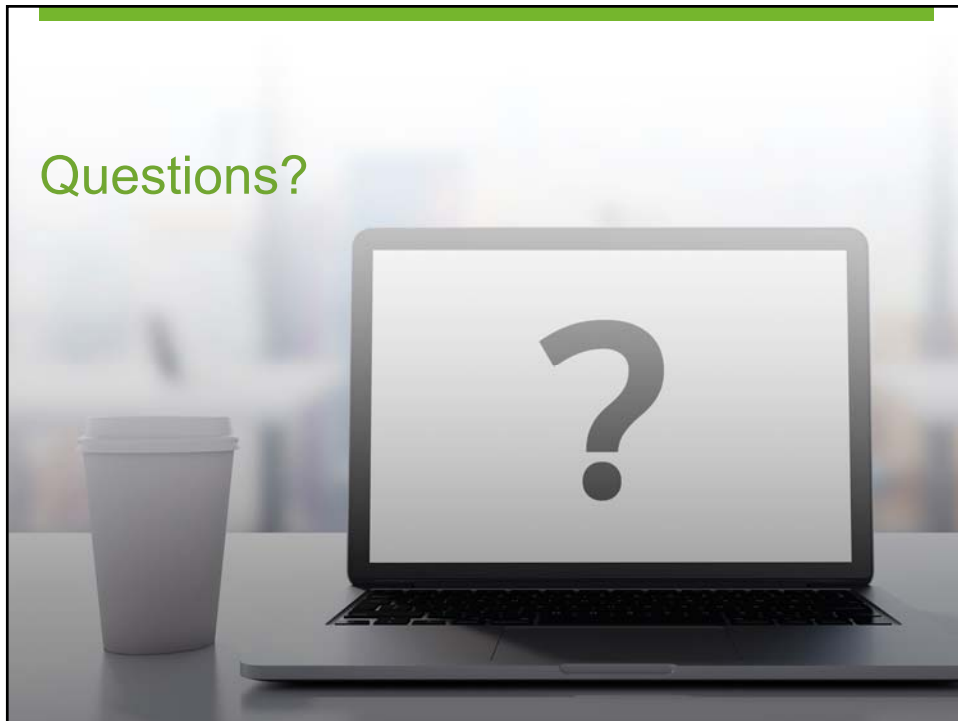
## Potpourri

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- Impact of other federal aid programs
- Uniform guidance audits (single-audit)
- Using PPP loan funds for back pay
- Interaction of PPP loan with deferral of employer payroll taxes
- Interaction of PPP loan with employee retention credits

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Questions?



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## Additional COVID-19 Resources

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Things are changing fast! Visit [capincrouse.com](https://www.capincrouse.com) and click on the home page banner below for the latest updates.



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## Thank you!

Ted R. Batson, Jr., Partner & Tax Counsel  
Professional Practice Leader – Tax  
CapinCrouse LLP

✉ [tbatson@capincrouse.com](mailto:tbatson@capincrouse.com)

📞 505.50.CAPIN ext. 1105



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