

PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS APPLICATION – KEY ITEMS

Late Friday, May 15, the SBA published and released the loan forgiveness application for the Paycheck Protection Program (PPP).

[Access the application on the SBA website by clicking here.](#)

The application provides some additional insight into the necessary payroll calculations, some key definitions of qualified expenses, as well as the documentation that will have to be submitted with the application along with what applicants are expected to retain in their records.

A few additional key items found within the loan forgiveness application below:

1. Covered period – The first day of the covered period is the loan disbursement date of your PPP funds and runs for 56 days (8 weeks).
2. Alternative Payroll Covered Period (APC Period) – The SBA has allowed borrowers with biweekly (or more frequent) payroll periods to elect to calculate eligible payroll costs using the 8 week period beginning on the first day of their pay period following the PPP loan disbursement date. If borrowers elect to use the alternative payroll covered period, they must apply it consistently throughout the application wherever there is a reference to “the covered period or the alternative payroll covered period”.
3. There is a box that must be checked stating if the PPP loan received combined with affiliates is over \$2 million. Presumably this is one way the SBA is going to track their audits.
4. Borrowers are eligible for forgiveness for payroll costs paid and incurred during the 8 week covered and alternative payroll covered periods.
 - a. Paid date – date the checks are distributed or the borrower initiates an ACH credit transaction.
 - b. Costs incurred – date the employee’s pay is earned. **Costs incurred but not paid are only eligible for forgiveness if paid on or before the next regular payroll date outside of the covered or APC periods.**
 - c. For each individual employee, the amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000 as prorated for the

period.

d. Payments to owner-employees, self-employed individuals, and partners are included as costs eligible for forgiveness

e. Only cash compensation and the following payroll items are eligible for forgiveness:

- i. Amounts paid by borrower for employee health insurance
- ii. Amounts paid by borrower for employer contributions to employee retirement plans
- iii. Total amount paid by borrower for employer state and local taxes assessed on employee compensation.

5. Eligible non-payroll costs must also be paid 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.**

a. Interest payments on covered mortgage obligations. Prepayments and principal payments are not eligible, and the mortgage must be on an business real or personal property originating prior to February 15, 2020.

b. Eligible rent payments include those for both real and personal property with rental/lease agreements in place prior to February 15, 2020.

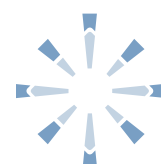
c. Utility payments are stated to include electric, gas, water, transportation, telephone, or internet access for which service began before February 15th, 2020.

d. As of today, these costs may not exceed 25% of the total forgiveness amount, although legislators are pushing to get this adjusted to a larger ratio.

6. Cash compensation includes the following amounts during the covered and APC periods:

- a. Gross salary
- b. Gross wages
- c. Gross tips
- d. Gross commissions
- e. Allowances for dismissal or separation paid
- f. Paid leave (vacation, family, medical or sick leave). **Note, this does not include leave covered by the Families First Coronavirus Response Act.**

7. Steps on how to calculate the salary/hourly wage reduction amounts and how to claim the full time employee reduction safe harbor for eligible filers.



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8. The application also includes a detailed list of documentation expected to be submitted with the application as well as retained by the borrower. Documentation verifying eligible cash compensation and benefit payments required to submit with the application include bank statements, third party payroll service provider reports, payroll tax forms, state quarterly tax forms, and any other item confirming eligible benefits paid on behalf of employees. Documentation verifying the full time employee amounts reported on the application must also be submitted. Copies of leases, mortgage statements, and utility payment invoices will be required with the application to support non payroll costs claimed as eligible PPP loan forgiveness expenses.

Frost, PLLC has been consistent in stressing the importance of maintaining separate accounts to aid in tracking PPP fund expenditures to our clients. Understanding this information at the beginning of the process will help you save a lot of work and time as we move through the covered and APC periods.

In addition, the guidance released continues to be updated frequently. Frost, PLLC is also aware there is an increased media presence indicating a lot of speculation of potential rule changes to come from both the SBA and the Treasury regarding the PPP program.

Please consult your Frost advisor with any questions you may have regarding this application and current SBA guidance.

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