

A Walk Through the PPP Loan Forgiveness Application

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Loan Forgiveness In General

- An eligible recipient can be eligible for forgiveness of indebtedness of a covered loan based on qualifying payroll and non-payroll costs incurred and paid during the Covered Period as specified in the CARES Act.



Applying for Loan Forgiveness

- Applications for forgiveness will be processed by your Lender
- The Lender will provide instructions on how and where to apply
- Lender has 60 days from submission to provide a response to the SBA
- The SBA then has 90 days to make a determination on the forgiveness amount requested



Applying for Loan Forgiveness

- Application includes
 - PPP Loan Forgiveness Calculation Form
 - PPP Schedule A
 - PPP Schedule A Worksheet
 - PPP Borrower Demographic Information Form (Optional)
- Borrowers must submit the Loan Forgiveness Calculation Form and Schedule A to their Lender





Forgiveness Application – General Information



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 Application – General Information

- Economic Injury Disaster Loan (EIDL) Advance Amount
 - If EIDL advance received
 - If applicable, SBA will deduct EIDL Advance Amounts from the forgiveness amount remitted to the lender
- EIDL Application Number
 - EIDL Application Number if Borrower applied for EIDL
- Covered Period
 - The eight-week (56-day) period following the PPP Loan Disbursement Date



Forgiveness Application – General Information

- Alternative Payroll Covered Period (APC)
 - 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 payroll period following the PPP loan disbursement date.
 - If Borrowers elect to use the Alternative Payroll period, they must apply it consistently throughout the application wherever there is a reference to “the Covered Period or the Alternative Payroll Covered Period.”



Forgiveness Application – General Information

- If Borrower Received PPP Loans in Excess of \$2 Million
 - There is a box that must be checked stating if the PPP loan received, combined with affiliates, is over \$2 million.
 - The SBA has indicated that loan amounts over \$2 million will be subject to audits.



Forgiveness Application – Main Form

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

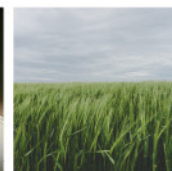
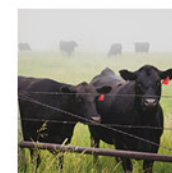
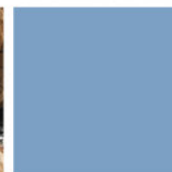
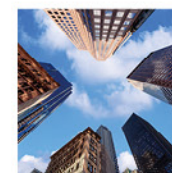
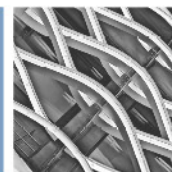
Line 8. Modified Total (multiply line 6 by line 7):

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):



Eligible Payroll Costs

- Borrowers are eligible for forgiveness for payroll costs paid and payroll costs incurred during the 8 week Covered and Alternative Payroll Covered Periods
 - Paid date – date the checks are distributed or the Borrower initiates an ACH credit transaction
 - 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.*



Eligible Payroll Costs

- Three scenarios where payroll costs are eligible for forgiveness:
 - Payroll costs are incurred prior to the applicant's chosen determination period, and are paid during the chosen determination period.
 - Payroll costs are both incurred and paid during the applicant's chosen determination period.
 - Payroll costs are incurred during the applicant's chosen determination period and paid during the next natural payroll cycle immediately following the close of the determination period.



Eligible Payroll Costs

- For each individual employee, the amount of cash compensation eligible for forgiveness may not exceed \$100,000 as prorated for the period.
- Payments to owner-employees, self-employed individuals and partners are included as costs eligible for forgiveness.
- Only cash compensation and the following payroll items are eligible for forgiveness:
 - Amounts paid by Borrower for employee health insurance
 - Amounts paid by Borrower for employer contributions to employee retirement plans
 - Total amount paid by Borrower for employer state and local taxes assessed on employee compensation



Eligible Payroll Costs

- Covered payroll costs allowed as cash compensation:
 - Salary
 - Wages
 - Commissions
 - Bonuses
 - Hazard Pay
 - Allowances for dismissal or separation paid
 - Paid leave (vacation, family, medical or sick leave). **Note – this does not include leave covered by the FFCRA.**
- Special Rules for self-employed individuals
 - Schedule C and F filers
 - Partners





Eligible Payroll Costs – Self Employed Applicants

- May not report more than the lesser of 8/52 of their 2019 compensation or \$15,385 per individual in total across all businesses
- Owner employees are capped by the amount of their 2019 cash compensation and the employer retirement and health care contributions.
- Schedule C filers are capped by the amount of their owner compensation replacement calculated based on 2019 net profit as stated in previous guidance released by the SBA





Eligible Payroll Costs – Self Employed Applicants

- General partners are capped by the amount of their 2019 net earnings from self-employment (reduced by claimed Section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235.
- No additional forgiveness is provided for retirement or health insurance contributions for self-employed individuals, including Schedule C filers and general partners, as such expenses are paid out of their net self-employment income.



Line 1: Eligible Payroll Costs

Schedule A Worksheet Tables

Table 1: List employees who:

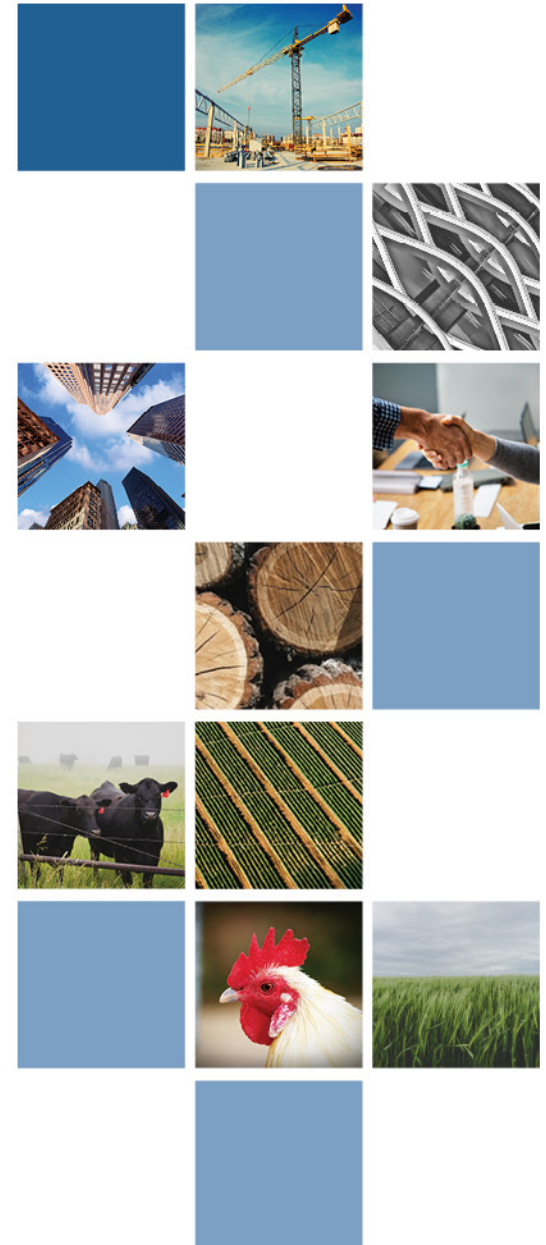
- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 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
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5



PPP Schedule A Worksheet: Table 1 and 2 Information

- Employee's Name
 - Separately list each employee
 - Do not include any independent contractors, owner-employees, self-employed individuals, or partners
- Employee Identifier
 - Last four digits of each employee's Social Security Number



Reductions from Schedule A and Schedule A Worksheet

Salary/Hourly Wage Reduction

- Loan forgiveness reduction required for salary/wage reductions in excess of 25% for certain employees

Full-Time Equivalent (FTE) Employee Reduction

- The statute reduces the loan forgiveness by a fraction comparing FTE employees during the coverage period to the average FTE employees at points during the pre-COVID-19 comparison period



Salary/Hourly Wage and FTE Reduction Exemption

- Regulatory exemption of the wage and FTE reduction rules provided for borrowers who offer to rehire or restore employee hours, *even if the employee does not accept.*



Salary/Hourly Wage and FTE Reduction Exemption

- These employees are excluded from the reduction calculation if the following steps are taken:
 - Written offer to rehire or restore hours.
 - Offer was at the same pay level (salary or hourly rate) prior to reduction
 - Offer is rejected by the employee
 - Records are maintained supporting the offer and subsequent employee rejection
 - The state unemployment insurance office was notified of the employee's rejection within 30 days.



Salary/Hourly Wage and FTE Reduction

- Applicants will not be double penalized by both wage and FTE reductions on a single employee. The salary/wage reduction applies only to the portion of decline that is not attributable to a FTE reduction and an example is provided for the calculation based on an hourly employee.
- Employees fired for cause will not reduce loan forgiveness.
- Employees who voluntarily resign or request a reduction in hours will not reduce loan forgiveness.



FTE Calculation: Determining Who to Count

- Only full-time employees (and full-time employee equivalents) are counted in determining loan forgiveness
- For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower.



FTE Calculation: Determining Who to Count

- Guidance released on the loan forgiveness application and in a subsequent IFR indicates that the FTEs are determined based on a **40 hour work week**.



FTE Calculation

- In general, the average FTE employees are determined by calculating the average number of FTE employees for each pay period falling within a month
- Borrower's chosen Reference Period:
 - Period from 2.15.19 to 6.30.19 (B1)
 - Period from 1.1.20 to 2.29.20 (B2)
 - Seasonal Employers may choose either of the preceding periods or a consecutive twelve week period between 5.1.19 to 9.15.19



FTE Calculation

- **Step 1:** Determine the FTE ratio for the 8 week period following the receipt of PPP loan proceeds
- **Step 2:** Determine the FTE ratio for the determination periods and use the one that produces the greatest amount of FTEs
- **Step 3:** Divide the amount determined in step 2 by the amount determined in step 1
- If you get a number of less than 1, you did not maintain your headcount, and your forgivable expenses may be reduced proportionately



Exemption for Re-Hires

- In certain circumstances, an employer may be able to restore all or a part of the reduction if they restore their FTEs by 6.30.20
 - Determine FTEs employed on 2.15.20
 - Determine average FTEs between 2.15.20 to 4.26.20
 - Determine FTEs as of 6.30.20
 - If the amount of FTEs determined as of 2.15.20 is greater than the average FTEs between 2.15.20 and the amount of FTEs as of 6.30.20 is greater than or equal to those on 2.15.20, the safe harbor is met and certain borrowers are exempt from the reduction in loan forgiveness based on FTEs



Wage Reduction Calculation

- Calculation made on per-employee basis
- Only employees making less than \$100,000 annualized are considered
- Looks to average annual salary or hourly wage for each employee during period from 1/1/20 to 3/31/20
- Safe harbor if salary as of 2/25/20 is restored by 6/30/20
- Steps outlined in forgiveness application including those for the safe harbor



Eligible Business Mortgage Interest Payments

- Amount of business mortgage interest payments during the Covered Period for any business mortgage obligation on real or personal property
- The loan must have been originated prior to 2/15/20



Eligible Business Rent or Lease Payments

- Amount of business rent or lease payments for real or personal property during the Covered Period
- According to lease agreements set before 2/15/20



Eligible Utility Payments

- Amount of business utility payments during the Covered Period
- Includes business utilities with service beginning before 2/15/20
- Utility payments include:
 - Electricity
 - Gas
 - Water
 - Transportation
 - Telephone
 - Internet Access



Non Payroll Costs

- 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*
- The Alternative Payroll Covered Period dates do NOT apply. Must occur during the 56 day (8 week) Covered Period.
- You are not required to report payments that you do not want to include in the forgiveness amount
- Prepayments of any kind are not allowed



Forgiveness Amount Calculation: Lines 8-11

Line 8: Modified Total

- Forgiveness application total reflecting wage and FTE adjustments

Line 9: PPP Loan Amount

- Disbursed principal amount of the PPP loan
- Total loan amount Borrower received from Lender



Forgiveness Amount Calculation: Lines 8-11

Line 10: Payroll Cost 75% Requirement

- Divide eligible payroll costs by 0.75
- Determines whether at least 75% of the potential forgiveness amount was used for payroll costs
- More information found in Interim Final Rule on PPP, posted on 4/2/20

PPP loan forgiveness amount is the lesser of these three amounts entered on line 11



Recordkeeping is Critical

- Accurate bookkeeping and record retention will be critical for loan forgiveness
- Lender will likely require documents in digital format



Required Documentation

- Payroll: Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or APC Period consisting of the following:
 - Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees



Required Documentation

- Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Cover Period or the APC Period
 - Payroll tax filings reported, or that will be reported, to the IRS (typically Form 941); and
 - State quarterly business and individual employee wage reporting and unemployment insurance tax filings, as reported, or that will be reported, to the relevant state



Required Documentation

- Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount



Required Documentation

- FTE: Documentation Showing (at the election of the Borrower)
 - The average number of FTE employees on payroll per month employed by the Borrower between 2/15/19 and 6/30/19
 - The average number of FTE employees on payroll per month employed by the Borrower between 1/1/20 and 2/29/20



Required Documentation

- In the case of a seasonal employer, the average number of FTE employees on payroll per month employed by the Borrower between 2/15/19 and 6/30/19; between 1/1/20 and 2/29/20; or any consecutive 12-week period between 5/1/19 and 9/15/19
- The selected time period must be the same time period selected for purposes of payroll costs.



Required Documentation

- Non-payroll: Documentation verifying existence of the obligations/services prior to 2/15/20 and eligible payments from the Covered Period:
 - Business mortgage interest payments: copy of Lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or Lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.



Required Documentation

- Business rent or lease payments: copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
- Business utility payments: copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks or account statements verifying those eligible payments.



Documents to Maintain, but Not Required to Submit

- PPP Schedule A Worksheet or its equivalent and the following:
 - Documentation supporting the listing of each individual employee, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
 - Documentation supporting the listing of each individual employee; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000



Documents to Maintain, but Not Required to Submit

- Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations and written requests by any employee for reductions in work schedule
- Documentation supporting the “FTE Reduction Safe Harbor.”



Documents to Maintain, but Not Required to Submit

All records relating to the Borrowers PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower's certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower's loan forgiveness application and documentation demonstrating the Borrowers material compliance with PPP requirements.



Documents to Maintain, but Not Required to Submit

The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.



Frost, PLLC has spent a great deal of time consulting clients on the PPP loan application process. We are available and actively consulting on the forgiveness process.



QUESTIONS

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