PPP Loans Forgiveness

Loan forgiveness must be applied for - Submit a request to the lender that is servicing the loan. The request will include documents that verify the number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease, and utility obligations. The borrower must certify that the documents are true and that the borrower used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments. The lender must make a decision on the forgiveness within 60 days.

IRS NOTICE 2020-32 – Expenses Not Deductible - This notice clarifies that no deduction is allowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan pursuant to section 1106(b) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Thus payroll, mortgage interest, rent and utilities expenses to the extent of the PPP Loan forgiveness cannot be included as a business expense.

After publication of the Notice, the chairman of the Senate Finance Committee expressed his displeasure with the IRS' position and indicated it had been Congress' intent that the expenses be deductible in order to maximize the benefits of the PPP loan.

Future legislation will surely override the IRS position. Potential legislation includes:

- **Small Business Expense Protection Act** - a bipartisan legislation if enacted will allow small businesses to deduct their expenses even if paid with forgiven loan proceeds.

- **HEROES Act –** Sec 20235 – Also includes a provision that clarifies expenses paid or incurred with proceeds from PPP loans that are forgiven and certain loan forgiveness by the SBA of emergency EIDL does not result in a denial of any deduction or basis of any asset for federal tax purposes .

Forgiven Loan Amounts Not Taxable - The Notice also makes it clear that the loan forgiveness is not taxable for federal purposes.

States May Tax the Amount Forgiven – The federal non-taxable treatment of loan forgiveness may not apply to the states. For instance, the California Franchise Tax Board in their May newsletter makes it clear California does not follow the federal non-taxable treatment, and could only do so if the state legislature changes the current law.

SBA Forgiveness application – The SBA Forgiveness Application was released on Friday May 15, 2020. To say it is complicated is an understatement. It is part form, part worksheet, skips around from form to form and leaves some very

complicated calculations to the applicant, probably because they were under pressure to get the form out to the public and didn't have time to do a proper job. At least that is what we would to like to think.

So, we have added "helper" instructions to the SBA form to help with filling it out. In addition, we developed a couple of auxiliary worksheets to do the complicated calculations the SBA form left to the applicant.

Wall Street Journal - Before getting into the helper instructions and the auxiliary worksheets, on Monday, May 18, the Wall Street Journal indicated lawmakers are preparing to make significant changes to the Paycheck Protection Program, including giving businesses more flexibility to spend the money and more time to do so. If that happens, the forgiveness rules will change as will the forgiveness application form. And, of course, our "helper" instructions and auxiliary worksheets will have to change as well. So, take the current SBA Application and our additions with a grain of salt because they will surely change and become more liberal.

Continue to the next page for the SBA Forgiveness application.

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):   _____

SBA Form 3508 (05/20)
Page 3

Margin annotations:

Covered period is the 8-week period beginning on the day the loan was funded.

Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56) day period that begins on the first day of their first pay period following their PPP Loan disbursement date.

Amounts where service began before Feb 15, 2020 and paid during covered period but do not include pre-payments.

PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:

> **WKSHT BOX 1 – PPP Schedule A**

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:

> **WKSHT BOX 2 – PPP Schedule A**

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.

> **WKSHT BOX 3 – PPP Schedule A**

> **If Table 1, BOX 3 is zero check the box**

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:

> **WKSHT BOX 4 – PPP Schedule A**

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:

> **WKSHT BOX 5 – PPP Schedule A**

Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

> Amounts paid during covered or alternative 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

> Carry the Line 10 amount to line 1 of the Forgiveness Calculation form (previous page).

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.

> **Note:** If the number of employees between Jan 1, 2020 and the end of the covered period **have** been reduced, the five steps of the **FTE Reduction Safe Harbor** included on Schedule A must be completed

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:

> If there has been no reduction in employees and the box above line 11 has been checked **OR** if the safe harbor has been met (Forgiveness Calculation form (previous page)), enter 1.0; otherwise line 12 divided by line 11.

SBA Form 3508 (05/20)
Page 6

Paycheck Protection Program
Loan Forgiveness Application

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PPP Schedule A Worksheet

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

Attach additional tables if additional rows are needed.

FTE Reduction Safe Harbor:

Step 1. Enter the borrower's total average FTE between February 15, 2020 and April 26, 2020. Follow the same method that was used to calculate Average FTE in the PPP Schedule A Worksheet Tables. Sum across all employees and enter: _____.

Step 2. Enter the borrower's total FTE in the Borrower's pay period inclusive of February 15, 2020. Follow the same method that was used in step 1: _____.

Step 3. If the entry for step 2 is greater than step 1, proceed to step 4. Otherwise, the FTE Reduction Safe Harbor is not applicable and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.

Step 4. Enter the borrower's total FTE as of June 30, 2020: _____.

Step 5. If the entry for step 4 is greater than or equal to step 2, enter 1.0 on line 13 of PPP Schedule A; the FTE Reduction Safe Harbor has been satisfied. Otherwise, the FTE Reduction Safe Harbor does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.

AUXILLARY WORKSHEET #1 - PPP SCHEDULE A
BOX 3 - COMPUTATION FOR SALARY/HOURLY WAGE REDUCTION
This worksheet must be completed for each employee

Employee Name:		Last 4 Digits of SSN:	

STEP 1 – Determine if pay was reduced more than 25%		
1a.	Enter the average annual salary or wage during the covered or alternative period	
1b.	Enter the average annual salary or wage between Jan 1 and March 31, 2020	
1c	Divide line 1a. by line 1b.	
If Line 1c, is 0.75 or greater enter zero on Schedule A worksheet for that employee in the column above box 3 and STOP here. Otherwise go to STEP 2		
STEP 2 - Determine if the Salary/Hourly Wage Reduction Safe Harbor is met		
2a.	r the annual salary or hourly wage as of February 15, 2020:	
2b.	Enter the average annual salary or hourly wage between Feb 15 and April 26, 2020:	
	If 2b. is equal to or greater than 2a. skip to Step 3. Otherwise, proceed to 2c.	
2c.	r the average annual salary or hourly wage as of June 30, 2020:	
If 2c. is equal to or greater than 2a., the Salary/Hourly Wage Reduction Safe Harbor has been met – enter zero on Schedule A worksheet for that employee in the column above box 3 and STOP here. Otherwise proceed to Step 3.		
STEP 3 - Determine the Salary/Hourly Wage Reduction.		
3a.	Multiply the amount entered at 1b. by 0.75	
3b.	Subtract the amount entered at 1a. from 3a:	
If the employee is an **hourly worker**, compute the total dollar amount of the reduction that exceeds 25% by going to 3c. Otherwise go to 3e for salaried employees.		
3c.	Enter the average number of hours worked per week Jan 1, through Mar 31, 2020	
3d.	Multiply the amount entered in 3b. by the amount entered in 3c.	
Multiply the amount at 3d by 8 and enter here and on Schedule A worksheet for that employee in the column above box 3 and STOP here.		
3e	**Salary workers -** Multiply the amount entered in 3b. by 8.	
Divide the amount at 3e by 52 and enter here and on Schedule A worksheet for that employee in the column above box 3.		

AUXILARY WORKSHEET #2 - FTE REDUCTION SAFE HARBOR

Employee Name	Last 4 digits of SSN	STEP 1 - 10 Week Period between Feb 15 and April 26, 2020		STEP 2 – Same Period as STEP 1 but inclusive of Feb 15, 2020		STEP 4 - June 30, 2020	
		Col A	Col B	Col C	Column D	Column E	Column F
		Number of Hours worked	Average FTE Col A/400* But not greater than 1.0	Number of Hours worked	Average FTE Col C/400* But not greater than 1.0	Number of hours worked on June 30	Average FTE (Col E/8) But not greater than 1.0
		TOTAL – Enter at **Step 1** of the **FTE Reduction Safe Harbor**		**TOTAL** - Enter at **Step 2** of the **FTE Reduction Safe Harbor**		**TOTAL** - Enter at **Step 4** of the FTE Reduction Safe Harbor	
*400 represents 10 weeks at 40 hours per week. Where 40 hours per week represents a full-time employee							