

A close-up, shallow depth-of-field photograph of a computer keyboard. The central focus is on a black key with a white 'X' symbol. To its right, a portion of a key with a white vertical bar is visible. The background shows other keys, including one with a blue 'X' symbol, all blurred. A dark, semi-transparent rectangular box is overlaid on the right side of the image, containing white and light blue text.

# Paycheck Protection Program Loan Forgiveness

Ladoska Keeter, CPA

DeAnna Ford, CPA

# Disclaimer

This material is for guidance and reference purposes only. It is not intended to be all inclusive or to constitute accounting, legal or professional advice. Users of this material should not consider this material as authoritative. This material is based on the authors' opinions and interpretations based on available resources at the time of creation. Updated interpretations and clarifications should be expected in the coming days and weeks that may clarify or contradict information included herein. Users of this material have not entered into an engagement with the Authors, Ladoska Keeter, CPA, Gordon, Keeter & Co or DeAnna Ford, CPA. Users should engage professionals to assist with their specific situation and needs.

# Original Legislation vs. Flexibility Act

## Original Legislation – 8 Weeks

- ◇ The PPP forgiveness period under the original legislation was an 8-week period (56 days) beginning the date the funding was received and ending 55 days later
- ◇ Under the terms of the 8-week forgiveness period, 75% of the loan must be used to cover eligible payroll costs.
- ◇ A maximum of 25% of the loan proceeds can be used for non-payroll costs, in order for the borrower to be eligible for 100% forgiveness

## Flexibility Act – 24 Weeks

- ◇ The PPP forgiveness period under the Flexibility Act expanded the covered period to 24 weeks beginning the date the funds were received
- ◇ Under the terms of the 24-week forgiveness period, 60% of the loan must be used to cover eligible payroll costs
- ◇ A maximum of 40% of the loan proceeds can be used for non-payroll costs in order for the borrower to be eligible for 100% forgiveness
- ◇ If 60% of the loan is not used for eligible payroll costs, the forgiveness amount will be reduced proportionately



# The 3 Stages of the Paycheck Protection Program



## Funding

Obtain funding in the form of an SBA loan for 2 ½ times your average monthly payroll costs



## Spending

Utilize the funds for eligible payroll costs and non-payroll expenses during the covered period



## Forgiveness

Account for the use of the funds as eligible expenses in order for some or all of the proceeds and accrued interest to be forgiven





# Funding

# Funding

- ◆ The Paycheck Protection Program (“PPP”) was enacted to provide emergency funding to businesses negatively impacted by COVID-19
- ◆ The funding was intended to provide economic support to businesses so they could:
  - ◆ Continue payroll and related benefits during the pandemic
  - ◆ Cover certain overhead costs during the pandemic
- ◆ Generally, funding was calculated based 250% (2.5 times) of average payroll costs for a 12-month period
- ◆ The final deadline for PPP funding applications is June 30, 2020



# Spending





Forgiveness Period  
Expenses Must Be Incurred And/Or Paid During The  
Designated Forgiveness Period In Order  
To Be Eligible For Forgiveness

# Forgiveness Period

- ◆ The original legislation allowed for loan proceeds to be spent on eligible costs during an 8-week period following the date of funding
- ◆ On June 5<sup>th</sup>, updated legislation was enacted to help ensure more recipients would qualify for 100% loan forgiveness – the updated legislation is referred to as the Paycheck Protection Flexibility Act and expands the forgiveness period to 24 weeks
- ◆ The updated legislation is available for all recipients of PPP loans whether they received funding prior to June 5<sup>th</sup> or not
- ◆ Recipients who received funding prior to June 5<sup>th</sup> can choose to apply for forgiveness under the original terms or under the PP Flexibility Act



# Covered Period for Payroll Costs VS. Non-Payroll Costs

## ◆ Payroll Costs Covered Period

- ◆ The covered period begins the day funds are received for either the 8-week or 24-week period
- ◆ Employers with a payroll frequency of bi-weekly (every 2 weeks) or greater, are allowed to use an “Alternative Payroll Covered Period” starting the first day of the next payroll period following their funding date

## ◆ Non-Payroll Costs Covered Period

- ◆ Begins the day the initial funds are received and ends on the last day of either the 8-week or 24-week period (no alternative period for non-payroll costs)





This Photo by Unknown Author is licensed under [CC BY-SA](#)

# Eligible Payroll Costs

# Eligible Payroll Costs

Salaries  
Wages  
Commissions  
Bonuses  
Paid time off

Employee Benefits  
such as  
Health Insurance  
and  
Retirement

State taxes  
imposed on the  
employer

In NC this is the  
Unemployment  
Tax (SUTA)

# Payroll Costs Must Be Paid And/Or Incurred To Be Eligible For Forgiveness

## ◆ Paid Costs

- ◆ Any eligible amounts paid during the covered period or alternative payroll covered period are eligible for the forgiveness calculation, regardless of whether the liability for such costs arose during the covered period
  - ◆ Example: Funded on a Monday. Payroll for the previous week ending Friday is paid on Wednesday. This payroll would be eligible for the forgiveness calculation.

## ◆ Incurred Costs

- ◆ Payroll costs incurred during the covered period or alternative payroll covered period, but paid after the end of the period are eligible for the forgiveness calculation, **as long as**, they are paid by the date of the next regular payroll
  - ◆ Example: Covered period ended on a Wednesday. Pay date is every Friday for the previous week ending Saturday. The next payroll will be completely allowed to be included in the forgiveness calculation. The payroll for the subsequent Friday would not be allowed because it was the second regular payroll after the covered period. Payroll could be paid early within the required time frame to accomplish forgiveness.



Maximum  
Compensation



# Maximum Compensation

## Original Legislation – 8 Weeks

- ◇ Maximum annual compensation allowed for calculating the loan value was \$100,000
- ◇ For Non-Owner Employees, when calculating the forgiveness amount the maximum forgiveness is \$15,385 ( $\$100,000 \times 8/52$ ) per employee
- ◇ For Owner-Employees, the forgiveness amount is limited to the lesser of:
  - ◇ \$15,385 or
  - ◇ 8/52 of the owner-employee's 2019 wages

## Flexibility Act – 24 Weeks

- ◇ Under the Flexibility Act the maximum amount of annual compensation allowed is still \$100,000
- ◇ For Non-Owner Employees, when calculating the forgiveness amount the maximum forgiveness is \$46,154 ( $\$100,000 \times 24/52$ ) per employee
- ◇ For Owner-Employees, the forgiveness amount is limited to the lesser of:
  - ◇ \$20,833 ( $\$100,000 / 12\text{mos} \times 2.5$  months) or
  - ◇ 2 ½ months of 2019 wages
    - ◇ Calculated:  $2019 \text{ wages} / 12 \times 2.5$



# Wages Defined

## Original Legislation – 8 Weeks

- ◇ Self-employed individuals - individuals that file a Schedule C or Schedule F with their individual tax return to report their earnings from self-employment, – are deemed to have annual compensation, eligible for forgiveness, equal to 8/52 of their 2019 Schedule C and/or F capped at annual overall limit of \$15,385
- ◇ Non-owner employees and S Corp and C Corp Owner-Employee wages are defined as W-2 wages

## Flexibility Act – 24 Weeks

- ◇ Under the expanded provisions of the Flexibility Act, self-employed individuals are allowed to treat 2 ½ months of their 2019 Schedule C and/or Schedule F as their wages, capped at \$20,833
  - ◇ Note: Since the original loan amount was based on 2 ½ months of their 2019 profit, self-employed individuals will reach full forgiveness based on earnings, without a need to show other qualifying expenses



# Partnerships

- ◆ Partners in partnerships that file form 1065 are not eligible to receive W-2 wages from the partnership
- ◆ Even though partners in a partnership are deemed to be self-employed and they are required to report their self-employment income derived from the partnership and pay their own self-employment taxes (FICA) with their individual return, they are not eligible apply for a PPP loan using their self-employment income from the partnership as a basis for their application
- ◆ The partnership will include self-employment income reported to partners as a part of their PPP application and apply for forgiveness using the same methodology. The partners' self-employment earnings will be adjusted for certain partnership expenses.
- ◆ Note: Self-employment earnings for Partners are subject to the same maximum compensation limits as owner- employees and self-employed individuals

## A close-up photograph of a document titled "Employee Benefits" in large, bold, black letters. The document is held by a silver metal clip. A black calculator is visible in the top left corner. A black pen and a pair of glasses are resting on the document. The background is a colorful, abstract pattern.



# Eligible Employee Benefits

## Non-Owner Employee

- ◇ Employee benefits eligible for forgiveness for non-owner employees include amounts paid/incurred (as previously defined) for
  - ◇ Health insurance
  - ◇ Retirement
  - ◇ Other employer paid benefits

## Owner-Employee

- ◇ S – Corporation Owners
  - ◇ Forgiveness is allowed for retirement contributions paid by the company but not health insurance unless it is included in W-2 Wages
- ◇ C –Corporation Owners
  - ◇ Forgiveness is allowed for both retirement and health insurance payments paid by the company
- ◇ Forgiveness Limitation
  - ◇ As with wages, benefit forgiveness is limited to the amount of the owner's 2019 equivalent benefits



Employer's Will Need  
Fund Employer Paid  
Retirement  
Contributions and  
Other Payroll Costs  
During the Covered  
Period or the  
Alternative Payroll  
Covered Period to be  
Eligible for Forgiveness

- ◇ Many retirement plans do not require employer retirement contributions to be paid until after the end of the calendar year
- ◇ Since retirement expenses are payroll costs, employers will need to fund these amounts by the date of the next regular payroll, following the end of the covered period to have those costs included in the forgiveness calculation
- ◇ Since the legislation does not stipulate that payroll costs have to be incurred during the covered period, the interpretation is that any retirement funding during the covered period will be eligible for the forgiveness calculation
- ◇ The same would be true for other payroll costs such as health insurance and other benefits

# Non-Payroll Costs Eligible For Forgiveness



# Non-Payroll Eligible Costs

Rent payments on  
real or personal  
property for  
agreements in effect  
prior to February 15,  
2020

Utility payments paid  
or incurred during  
the covered period  
  
Gas, electric,  
garbage, water,  
sewer, telephone &  
internet

Interest on mortgage  
obligations for real or  
personal property  
  
*Not principal  
payments*



# Non-Payroll Costs Must Be Paid And/Or Incurred during the Covered Period To Be Eligible For Forgiveness

- ◆ If the borrower chooses to use the **Alternative Covered Period** for payroll costs, they must still account for non-payroll costs in the covered period ( 8 or 24 weeks) beginning the date the funds were received
- ◆ Amounts paid during the covered period are eligible for forgiveness, even if incurred outside of the covered period
- ◆ Amounts paid after the covered period for services received or expenses incurred during the covered period are eligible, as long as, the payment is made by the next regular billing cycle following the end of the covered period
  - ◆ Example: Funded on May 1 and 8-week period ends on June 26.
    - ◆ Utility bill paid in May for April is eligible
    - ◆ Utility bill paid prior to June 26 for May services is eligible
    - ◆ Portion of utility bill paid by regular due date in July for services through June 26 is eligible for forgiveness

# Prepayments of Non-Payroll Costs

- ◆ The written guidance specifically prohibits forgiveness of prepaid mortgage interest
- ◆ The written guidance is silent in all other areas regarding the forgiveness of prepaid expenses
- ◆ Experts have interpreted prepaid eligible expenses as allowed when calculating the PPP forgiveness, assuming such amounts have been paid during the covered period

# Forgiveness





# PPP Loan Forgiveness Process

- ◆ Determine if you will use the 8-week or 24-week forgiveness period
  - ◆ Calculate the number of FTE employees during the lookback period vs. the covered period
    - ◆ An FTE employee is defined as any employee who works an average of 40 hours per week. Employees working more than a 40-hour average are still considered 1 FTE
    - ◆ An employee working less than a 40-hour average workweek is considered part-time
      - ◆ Part-time employees are counted as a percentage of an FTE based on their average hours worked
  - Or
  - ◆ The simplified method can be used, where each part-time employee can be counted as a **.5 FTE**

# PPP Loan Forgiveness Process

## Continued

- ◆ Accumulate payroll and non-payroll costs eligible for forgiveness along with supporting documentation
- ◆ Prepare form 3508 or 3508EZ to submit to the lender within 10 months of the last day of the covered period
  - ◆ The lender has 60 days after receipt of the application to review and submit a decision regarding forgiveness to the SBA
  - ◆ The SBA has 90 days to review and submit a decision to the lender
  - ◆ Therefore the borrower should have forgiveness confirmation within 150 days

# 8-week vs. 24-Week Forgiveness Period

- ◆ If the borrower received their funds prior to June 5<sup>th</sup>, they can choose either 8 or 24 weeks
- ◆ The borrower can submit its forgiveness application prior to the end their covered period if they have used all of the funds for which they are requesting forgiveness. This is assuming the borrower has not had a reduction in wages or FTE employees and can certify such on their application for forgiveness
- ◆ If the borrower has reduced wages or FTE and needs the full 24 weeks or until December 31<sup>st</sup> to restore wages and employee levels, they will want to wait until their levels have been restored to file the application



# Reduction in Wages and FTE Employees

- ◆ Employers may be subject to reduced forgiveness calculations if:
  - ◆ They have reduced employee salaries by more than 25% during the covered period compared to employee's wage level for the period January 1, 2020 – March 31, 2020
  - ◆ They have reduced the number of full-time equivalent employees compared to either:
    - ◆ January 1, 2020 – February 29, 2020
    - OR
    - ◆ February 15, 2019 – June 30, 2019
- ◆ Employers that have a reduction in FTE employees which results in a reduction in wages, will not be penalized for both the FTE reduction and the reduction in wages. The reduction in FTE employees would be the only factor resulting in a reduction

# WAGE REDUCTION EXAMPLE

Wage during lookback	1,000.00
Wage during covered period	700.00
% reduction	(0.30)
% Allowed	0.25
Factor for forgiveness reduction (per EE basis)	(0.05)
Reduction Exemption	250.00
Actual Reduction	300.00
Per Pay Reduction Amount	50.00
Total reduction amount assumed paid weekly & 24 covered period	1,200.00

# Exemptions From Reduction Calculations

Employers can be exempt from the reduced forgiveness calculations in the following situations:

- ◆ The employer has eliminated the reduction in number of FTE employees or in salary levels by June 30<sup>th</sup> for the 8-week covered period, or by no later than December 31<sup>st</sup> for the 24-week covered period
- ◆ The employer can document
  - ◆ The inability to rehire individuals who were employed on February 15, 2020
  - ◆ The inability to rehire qualified individuals by December 31, 2020
  - ◆ The inability to return to the same level of business activity as before February 15, 2020 due to compliance with guidance from HHS, CDC or OSHA



# Exemptions From Reduction Calculations

Continued:

Employers can be exempt from the reduced forgiveness calculations in the following situations:

- ◆ The employer can document a reduction in FTE employees is the result of an employee refusing to return to work where:
  - ◆ The employer made a good faith offer
  - ◆ The offer was for the same wages and hours the employee earned in the pay period preceding the reduction
  - ◆ The employee rejected the offer
  - ◆ The employer maintained records supporting the offer and the rejection
  - ◆ Note: If an employee refuses to return to work under these circumstances, the employer is required to report such to their state unemployment office within 30 days to be eligible for this exemption
- ◆ The employer can show an employee was fired for cause, resigned or requested a reduction in hours

# Reduction in PPP Forgiveness Due To EIDL

- ◆ Borrowers who received an EIDL advance (up to \$10,000) will have the amount of their eligible PPP forgiveness reduced by the amount of their Advance EIDL funding
- ◆ The 3508/3508EZ application requires the borrower to list the amount of any EIDL Advance, if applicable, as well as the EIDL Application Number.
- ◆ The mechanics of this subtraction is unclear. The application does not provide a methodology for subtracting the advance from the forgiveness amount. Additional guidance from the SBA and/or banks will be needed to provide further guidance on this topic.
- ◆ Note: It is ok for a borrower to have both a PPP Loan and an EIDL loan. However, the EIDL loan and the PPP funds cannot be used for, or applied against, the same expenses.

# SBA Loan Forgiveness Application

- ◆ To apply for loan forgiveness the borrower must file form 3508 or 3508EZ with the lender
- ◆ The application provides formulas and instructions for calculating eligible
  - ◆ Payroll costs, and
  - ◆ Non-payroll costs including interest, rent and utility payments
- ◆ Eligible costs are adjusted for reductions in
  - ◆ Full-time equivalent employees
  - ◆ Salary/hourly wage reductions



# 3508EZ vs. 3508

- ◆ The form 3508EZ is a streamlined version of the forgiveness application
- ◆ The form was designed to make it simpler for small businesses to apply for loan forgiveness
- ◆ Employers are eligible to use 3508EZ if they can certify there was not a reduction in wages for any employee by more than 25% for any applicable employee
- ◆ Employers must certify one of the following:
  - ◆ There was not a reduction in FTE employees during the covered period after taking into account exemptions discussed previously
  - OR
  - ◆ The employer was unable to operate and previous levels due to HHS, CDC or OSHA

# Final Thoughts and Comments



- ◆ There are still a lot of unanswered questions concerning the forgiveness provisions of the PPP
- ◆ Available loan amounts were calculated based on a 10-week base period
- ◆ With the forgiveness period increased from 8 weeks to 24 weeks and the increase in allowed non-payroll costs from 25% to 40%, most borrowers will be able to accomplish full forgiveness without any special adjustments to payroll or operations
- ◆ If you would be subject to a loan forgiveness reduction based on FTE employees or salary levels, defer filing your application until closer to the final deadline to try to accomplish full forgiveness
- ◆ If you meet the requirements for forgiveness, apply for forgiveness sooner rather than later in the event your business suffers an economic downturn later that will force reduced salaries or layoffs



- ◊ If you will be subject to reduction of some sort either way, and you can apply for forgiveness based on either the 8-week or 24-week term, calculate the forgiveness both ways and determine which way is most beneficial in your situation
- ◊ Remember – All forgiveness applications must be filed within the 10 months following the end of the covered period to be eligible for forgiveness
- ◊ If the full amount of the loan is not forgiven, borrowers may repay the balance early to avoid interest charges
  - ◊ Loan terms are 2 years if received prior to June 5<sup>th</sup>. Loan terms are 5 years if received June 5<sup>th</sup> or later
  - ◊ Borrowers who have a 2-year loan term can renegotiate their term with their lender, if both agree to the modification in terms