



Navigating PPP Forgiveness

Follow-up to Q&A Webinar Questions

A: Measurement Period Questions

1. How does the latest legislation affect the 8-week period used in the forgiveness calculation?

On June 5, 2020, President Trump signed the Paycheck Protection Program Flexibility Act (PPPFA), which extends the time-period to use PPP loan funds from 8 to 24 weeks. You may elect to keep the 8-week time-period on previously issued PPP loans and the time-period cannot extend past December 31, 2020.

2. Do the legislation changes apply to all preexisting PPP loans?

Yes, the PPPFA changes apply to all PPP loans, regardless of when the loan was obtained.

3. When does the measurement period begin?

The measurement period for forgiveness measurement begins on the date that the funds are received if you are using the Covered Period for measuring Cash Compensation. If your employees are paid biweekly or more frequently, you may use the Alternative Payroll Covered Period, which begins the first day of their first pay period following the date the PPP loan funds are received.

4. What is the reference period that can be used in the forgiveness calculation?

The reference period for the Salary/Hour Wage Reduction calculation is January 1, 2020 to March 31, 2020. The reference period for the Full-time equivalent (FTE) Reduction calculation can be either February 15, 2019 to June 30, 2019 or January 1, 2020 to February 29, 2020.

5. How long must you retain employees past the measurement period?

There is no guidance after December 31, 2020 or until your PPP loan has been fully expended.

6. Do “other costs” follow the alternative payroll period if you elect to use that period for measuring payroll?

No, eligible non-payroll costs must be paid or incurred during the measurement period (Covered Period) from the date the PPP loan funds were received. Any costs incurred but not paid within the Covered Period must be paid on or before the next regular billing date, even if the billing date is after the Covered Period.

LEGEND: TOPICS FOR PPP FORGIVENESS

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B: Forgiveness Timing Questions

1. How long do you have to submit the forgiveness application?

You should submit it before your loan starts to amortize after the Covered Period. Payments will start 10 months after the end of the Covered Period.

2. How long will it take for the forgiveness application to be approved?

After you submit your application for forgiveness, your lender has 60 days to approve before submitting to the SBA. The SBA then has 90 days to approve.

3. Are unforgiven amounts subject to the terms of the original note?

Yes. The outstanding balance will continue to accrue interest at 1%, which begins on the date of funding. Payment deferral is extended to 10 months or until SBA remits forgiveness to the lender, though interest will accrue during this period.

4. If forgiveness is not determined until after the due date of the 2020 tax return, how should potentially non-deductible expenses be treated?

If you are going through the forgiveness process with the SBA and have not received a determination, we recommend extending your 2020 tax return to avoid the need to Amend the return.

C: Forgiveness Support Questions

1. What is expected to be provided to support payroll and eligible expenses?

The PPP Loan Forgiveness Application includes a sample list of documents that may be submitted with the application to verify the use of the PPP Loan funds. Documentation for cash compensation and non-cash benefit payments can include Bank Account Statements, Third-Party payroll service reports, Tax Forms (typically Form 941), Quarterly State Wage reports, Payment Receipts, Canceled Checks, etc. Documentation for qualifying non-payroll costs can include lender loan/mortgage amortization schedules and receipts/canceled checks, copy of current lease agreement and receipts/canceled checks, lessor account statements, copies of utility invoices and receipts/canceled checks, account statements, etc.

2. If a dedicated bank account was not set up for the PPP loan, does that impact the support I must provide?

Based on the current guidance, it is not required to have a separate bank account established to track the usage of the PPP Loan funds. Funds can be transferred between bank accounts to facilitate payroll transactions. We recommend submitting as much documentation as possible to help ensure forgiveness of the loan.

3. If invoiced amounts include some personal components, (i.e. bundled TV and Internet), how do I break this out to support the eligible expense portion?

Use the actual invoice for support and identify the business portion.

4. What should I keep on file to support and document the PPP loan necessity?

FOR LOANS UNDER \$2 MILLION - The SBA will assume this certification was made in good faith and the borrower did not have ready access to other sources of capital at the time of application. However, documentation requirements remain intact and these loans are technically subject to review by the SBA.

FOR LOANS OVER \$2 MILLION - All loans over \$2 million will be subject to a full review by the SBA to ensure this certification was made in good faith. Click <https://bkmsb.com/covid19/part-13-preparing-for-forgiveness-audit/> to see The CARES Act Part 13 which outlines more details.

5. How do I obtain the forgiveness application and where do I submit it?

The forgiveness application can be obtained via the SBA.gov website. The completed application and applicable documentation should be submitted to your lender.

D: Forgiveness Calculation Questions

1. Have there been any updates to the terms of the loan for any portion of the loan that is not forgiven?

For PPP loans issued on or after June 5, 2020, the PPPFA has extended the repayment term from 2 years to 5 years for any portion of the loan that is not forgiven. Also, the first payment on the loan will be due on the date the SBA remits forgiveness to the lender or 10 months after the end of the Covered Period.

2. Can “interest only” mortgages be paid using PPP loan funds?

Based on current guidance, interest on any mortgage secured by real or personal property can be included in non-payroll costs for in the forgiveness calculation.

3. Can non-payroll costs that were not included in the original PPP Loan application be included in the loan forgiveness application?

Yes

4. How do EIDL loan proceeds affect PPP loan forgiveness?

It is deducted from the loan forgiveness amount.

5. Do 100% of the loan funds need to be used for payroll and qualifying non-payroll costs in order to qualify for forgiveness?

No, you don't have to use 100% of the loan for payroll and qualifying non-payroll costs to qualify for partial forgiveness.

6. Can mortgage interest payments made by a related company on debt guaranteed by the PPP loan recipient be included in non-payroll costs for PPP loan forgiveness?

No

E: Payroll Questions

1. Can bonuses, hazard pay, or severance paid during the Covered Period be included as a Payroll Cost in the PPP Loan forgiveness calculation?

Cash Compensation either paid or incurred can be included in the forgiveness calculation. Based on current guidance, we believe regularly scheduled bonuses, hazard pay, and any severance payments made are includible in the forgiveness calculation.

2. What is the maximum annualized amount per employee you can include in Cash Compensation for the forgiveness calculation?

The Cash Compensation portion of the forgiveness calculation can include up to an annualized Salary/Wage of \$100,000 per employee. This includes “gross wages, gross tips, gross commissions, paid leave.” Since gross wages includes the employee portion of payroll taxes, these should be included in the \$100,000 annualized per employee limit. The employer portion of payroll taxes cannot be included in the Cash Compensation calculation. Payments for employee benefits such as health/dental/vision insurance premiums, retirement account contributions, and payments to a State unemployment fund can be included over and above the \$100,000 annualized compensation limitation.

3. How is Cash Compensation measured for Self-employed individuals and partners/LLC members?

The method for determining the forgiveness amount for owner compensation for sole proprietors is to take the 2019 Schedule C net income (limited to \$100k), which was used for the PPP loan application (maximum of \$20,833). 75% of this amount is automatically eligible for forgiveness. Partners and LLC members that receive self-employment income are included in the same calculation as the employees of the partnership or LLC.

4. How is the Salary/Hourly Wage 25% reduction limitation calculated?

To calculate whether the 25% Salary/Hourly Wage reduction applies, take each employees annualized salary or average hourly wage paid during either the Covered Period or Alternative Covered Period divided by the same employee’s annualized salary or average hourly wage paid between January 1, 2020 and March 31, 2020. There are no adjustments allowed for varying rates of pay allowed in the calculation. If the amount paid in the Covered Period or Alternative Covered period is less than 75% of the amount paid in the reference period, then the employee’s compensation forgiveness is subject to the wage reduction limitation. If wages were restored, then a determination as to whether the Safe Harbor test has been met must be made.

F: Non-payroll Expense Questions

1. What can be included in Utilities expense for PPP Loan forgiveness as a non-payroll cost?

“Covered Utility Payments” include a service for the distribution of electricity, gas, water, transportation, telephone, or INTERNET access for which service began before February 15, 2020.

2. What type of mortgage interest and rent expense can be included as a non-payroll cost?

Mortgage interest or Rent expense can be for payments of interest or business rent or lease payments pursuant to mortgage obligations or lease agreements for real or personal property in force before February 15, 2020. This includes office space, computer equipment, office equipment, transportation equipment, storage unit rental, etc.

G: Loan Application Questions

1. Can you receive funds under both the PPP Loan and Paycheck Support Program (PSP) aviation grant programs?

Yes, you may receive funding under both programs without restriction.

H: Full-Time Equivalent (FTE) Questions

1. What is an FTE?

An FTE is a “full-time equivalent” employee which is used to calculate a reduction in headcount for PPP loan forgiveness purposes.

2. Are there exceptions to the FTE count?

Yes. Exceptions to the FTE reduction limitation include instances where a good-faith offer to rehire and employee during the Covered Period was made and rejected by the employee, and any employees who were fired for cause, voluntarily resigned, or voluntarily requested and received a reduction of their hours.

3. How are FTEs calculated?

There are two methods to calculate FTEs, Actual or Simplified.

For the Actual calculation, take each employee, take 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 if elected by the Borrower

I: Eligible Expenses Questions

1. Frequent client question - do utilities include Internet for employee iPads?

Yes.

2. Employee reimbursements for Phone and ISP – can these be included in Salary or would it qualify for utilities?

Yes, they can be included in non-payroll expenses.

3. Would Laptop leases be included in non-payroll expense?

Yes, if they are operating leases.

4. Would rental on a storage unit be eligible?

Yes, if it is used in your trade or business.

5. Transportation cost include things like truck rentals, fuel for delivering customer parts?

Yes, if they were in place prior to February 15, 2020.

6. Are amortized equipment, such as computers, eligible?

No.

7. To clarify, lease payments for copy/fax machines could be included?

Yes, if they are operating leases.

8. What if owners cell phones are in the owners' name and the S Corp reimburses the owner? Would those costs count?

Yes.

9. Cloud based storage like Azure, would this be considered a Utility?

Yes.

10. If we sublease a space that we pay rent expense on, can we still deduct the full rent expense that we pay or does it need to be netted against sublease funds received?

At the moment there is no guidance on subleases.

11. Are building taxes for an owned building amortized deductible?

Real estate taxes are not an eligible expense.

12. What about Company Liability insurance/building insurance amortized during that period deductible as expense?

Liability insurance costs are not eligible expenses.

13. Can we include the payments on company vehicles?

No, but the interest portion included in your payments on company vehicles would be a qualified expense.

J: Recording Forgiveness

1. How should you record the loan if forgiven?

It depends on the accounting treatment you elect. Click here to see our CARES Act Part 15 for more information <https://bkmsb.com/covid19/part-15-the-cares-act-a-debt-or-a-grant/>

2. If you have employees that are required to quarantine so we take advantage of the FFCARES Act for sick leave for them, can you utilize the tax credits provided for the FFCARES sick leave after the 8 week period on the PPP loan?

You cannot receive the tax credits and receive loan forgiveness under the PPP loan.

K: Not for Profits Questions

1. Are there any special provisions related to nonprofit organizations with regards to PPP loans?

Based on current guidance, nonprofit organizations receiving PPP loans are treated as all other PPP loan recipients with regards to loan forgiveness and all other aspects of the PPP loan program.