

Paycheck Protection Program (PPP) Loan Forgiveness Updates

Presented by:
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Conversations That Change EverythingSM



Your Presenters



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Housekeeping

- CPE requirements & certificate
 - Answer poll questions ***You must be out of full-screen mode to answer poll questions**
 - Need to sign attendance sheet for CPE – completed as part of the survey (must complete the survey)
- Unanswered questions will be addressed via email but we will try to answer some if we have time at the end of this session
- COVID-19 Resource Center at www.hwco.com
 - Sign up to receive emails
 - Follow us on LinkedIn and Facebook
- Webinar recording will be available on website (CPE for live viewing only)
 - COVID-19 Resource Center
 - Knowledge Center

PPP History and Updates

- Overall updates and recent trends
- Round One (approvals through 4/16/20) and Round Two (approvals through 7/10/20)
 - Ability to apply began April 3rd
 - Approved funds \$517,417,286,175
 - Ohio approved funds \$18,291,389,124 (7th largest in US)
 - **Amount of funding remaining is \$131,189,028,196**
- Interim Final Rules <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
 - 22 issued from 4/2/20 through 6/25/20...more to come!!
 - IFR issued on 6/22/20 clearing up a few issues to make complete loan forgiveness more achievable (IFR is in response to PPP Flexibility Act (6/5/20))
- FAQs (Frequently Asked Questions) for PPP Loans
 - 49 FAQs from 4/3/20 through 6/25/20...more to come!!

PPP History and Updates (cont.)

- **SBA and Treasury release PPP loan data on July 6th**
 - Loans \$150k or greater – Business names and other demographic data with loan ranges of \$150k-\$350k, \$350k-\$1m, \$1m-\$2m, \$2m-\$5m, and \$5m-\$10m.
 - Loans less than \$150k – Business names are not disclosed, by State.
- Deadline to apply for a PPP loan is August 8, 2020 (5 more weeks were approved from original June 30, 2020 deadline).
- Lenders are able to create their own loan forgiveness applications/platforms – many are in the process of rolling out in July/early August.
- **PPP Phase 2** – Congress discussing another phase of funding but more focused.

Polling Question

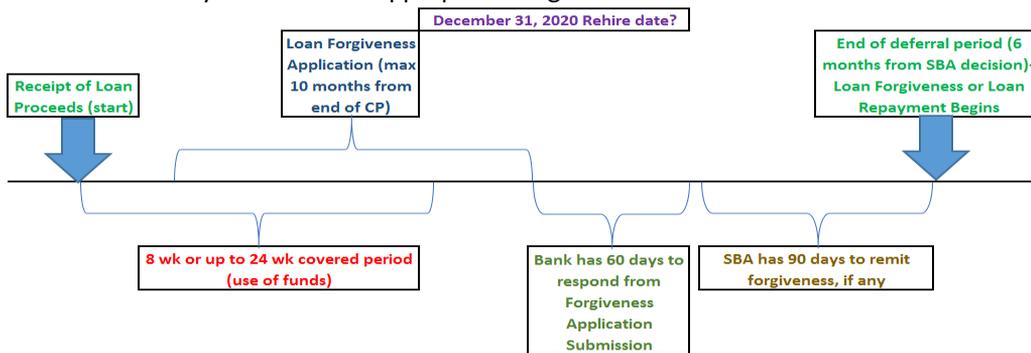
Has your bank contacted you about their process for taking loan forgiveness applications?

Yes/No

PPP Loan Forgiveness Details

➤ Deadlines:

- If borrower fails to submit application for loan forgiveness within 10 months from the end of the Covered Period, borrower must begin paying principal and interest.
- Lender has 60 days from receipt of loan forgiveness application.
- SBA has 90 days to remit the appropriate forgiveness amount to the lender.



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PPP Loan Forgiveness Details

➤ Term of Loan:

- Minimum maturity of 5 years for loans June 5, 2020 and after.
- For loans made before June 5, 2020, the maturity is 2 years but can be up to 5 years if agreed to by borrower and lender (amended promissory note or addendum).

➤ Interest rate remains at 1%.

➤ Covered Period:

- Loans before June 5, 2020 borrower can elect 8 weeks or up to 24 weeks from loan funding.
- Loans after June 5, 2020 it is up to 24 weeks or December 31, 2020.

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PPP Loan Forgiveness Application (SBA Form 3508EZ (06/20))

Borrowers can use the EZ form if one of the following applies:

- Borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees (including no employees when they applied for the loan) **OR**
- Borrower did not reduce annual salary or hourly wages of any employee more than 25 percent during the Covered Period compared to the first quarter of 2020 and borrower did not reduce the number of employees or average paid hours of employees between January 1, 2020 and the end of the Covered Period (safe harbors apply) **OR**
- Borrower did not reduce annual salary or hourly wages of any employee more than 25 percent during the Covered Period compared to the first quarter of 2020 and borrower was unable to operate during the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with HHS, CDC, or OSHA.
- **Still need to maintain all calculations and support but may not have to provide FTE information to lender.**

PPP Loan Forgiveness Application (SBA Form 3508 (06/20))

➤ Application has 4 components:

- PPP Loan Forgiveness Calculation Form (must be submitted)
- PPP Schedule A (must be submitted)
- PPP Schedule A Worksheet (retained by borrower)
- (optional) PPP Borrower Demographic Information Form

➤ Questions on page 1 of Application

- Asks for "Employees at Time of Loan Application"...why?
- Asks for "Employees at Time of Forgiveness Application"...why?
- Payroll Schedule? Weekly, Biweekly, Twice a month, Monthly, Other
- Covered Period: 8 week (56-day) or up to 24 week (168-day) period from first day of PPP Loan disbursement date (funding)
- Alternative Payroll Covered Period (must be biweekly or more frequent pay periods)
- Check the box "if Borrower (together with affiliates, if applicable) received PPP loan in excess of \$2 million"...why?

Documentation the borrower must submit

- PPP Loan Forgiveness Calculation Form
- PPP Schedule A
- Payroll (Cash and Non-Cash benefit payments)
 - Bank statements, payroll service reports, tax forms (payroll tax filings form 941)
 - Payment receipts, cancelled checks or account statements for employer contributions to health insurance and retirement plan.
- FTE – documentation showing all calculations or measurement period for FTE purposes.
- Non-payroll
 - Documentation verifying existence of obligations/services prior to 2/15/20
 - Lender reports and a mortization schedules or cancelled checks verifying payments
 - Lease agreements, cancelled checks verifying payments; or lessor statements
 - Utility invoices, cancelled checks or account statements

Documentation the borrower must maintain for six years after the date the loan is forgiven:
PPP Schedule A Worksheet – all support to substantiate information

Accounting of the PPP Loan/Forgiveness

- **Business entities (for Profit entities)**
 - Record in accordance with ASC 470 Debt
 - Once the forgiveness is approved the borrower would reduce the liability and record a gain on extinguishment.
 - Record in accordance with IAS 20
 - Deferred income liability and once there is reasonable assurance (probable) that the PPP loan will be forgiven record to “other income” or net with related expense (systematic recognition).
 - Record in accordance with ASC 958-605
 - Refundable advance liability and once there is reasonable assurance (probable) that the PPP loan will be forgiven record to “other income” (systematic recognition).
 - Are FTE and Salary/Hourly Reduction calculations considered barriers??
- **Not-For-Profit entities**
 - Record in accordance with ASC 470 Debt
 - Once the forgiveness is approved the borrower would reduce the liability and record a gain on extinguishment.
 - Record in accordance with ASC 958-605
 - Refundable advance liability and once there is reasonable assurance (probable) that the PPP loan will be forgiven record to “other income” or grant/contribution income (systematic recognition).
 - Are FTE and Salary/Hourly Reduction calculations considered barriers??

Polling Question

Do you anticipate your payroll servicer to provide customized FTE/payroll reporting for the loan forgiveness?

Yes/No/Not Sure Yet

Two Calculations that can reduce qualifying costs:

1) Salary/Hourly Wage Reduction and Safe Harbor

No Reduction when

The average annual salary or hourly wage for each employee listed 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.

If less than 75% is calculated for certain employees then you must review safe harbors...

Two Calculations that can reduce qualifying costs (cont.):

1) Salary/Hourly Wage Reduction and Safe Harbor (cont.)

Safe Harbor

- Borrower, in good faith, is able to document that it was unable to operate between February 15, 2020, and the end of the Covered Period at the **same level of business activity** as before February 15, 2020 due to compliance with HHS, CDC, or OSHA **OR**
- If average annual salary or hourly wage between 2/15/2020 and 4/26/2020 is => annual salary or hourly wage as of 2/15/2020, then safe harbor is met; no need to review 12/31/2020 or date of application **OR**
- If average annual salary or hourly wage as of 12/31/2020 or date of application is => annual salary or hourly wage as of 2/15/2020, then safe harbor is met.

Two Calculations that can reduce qualifying costs (cont.):

2) FTE Reduction and Safe Harbors

Definition of Average FTE

- This calculates the average full-time equivalency (FTE) during the Covered Period or the Alternative Payroll Covered Period.
- 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.

Two Calculations that can reduce qualifying costs (cont.):

2) FTE Reduction and Safe Harbors (cont.)

FTE Reduction Safe Harbor 1:

- If the borrower was unable to operate between 2/15/20 and the end of the Covered Period at the **same level of business activity** as before 2/15/20 due to compliance with HHS, CDC, or OSHA.

FTE Reduction Safe Harbor 2:

- If total average weekly FTE count is higher for 2/15/20 to 4/26/20 compared to 2/15/20 then safe harbor applies.
- If not then if borrower's total FTE count at 12/31/20 or the date of the application is => than 2/15/20 then safe harbor applies.

Two Calculations that can reduce qualifying costs (cont.):

FTE Reduction Exceptions – Indicate the FTE of:

- Any positions for which the Borrower made a good-faith, written offer to rehire an employee who was an employee on 2/15/20 and the borrower was unable to hire similarly qualified employees for unfilled positions on or before 12/31/20.
- Any positions for which the Borrower made a good-faith, written offer to restore any reduction in hours (at the same salary or wage) and EE rejected the offer.
- Any employees who during the Covered Period or the Alternative Payroll Covered Period
 - Were fired for cause
 - Voluntarily resigned, or
 - Voluntarily requested and received a reduction of their hours.
- Any FTE reductions in these cases do not reduce the Borrower's loan forgiveness.

Polling Question

Do you plan to hire more employees in 2020?

Yes/No/Maybe

FAQs and Strategies

FAQs and Certain Strategies

FAQs

Q: Are there caps on the amount of loan forgiveness available for owner-employees and self-employed individuals' owner payroll compensation, including non-cash compensation?

A: Yes,

Borrowers that elect 8 weeks its \$15,385 or (8/52) of 2019 compensation, whichever is less.

Borrowers that elect 24 weeks its \$20,833 or (2.5/12) of 2019 compensation, whichever is less.

C-Corporation owner-employees –capped at 2019 cash compensation and ER HI and ER retirement contributions.

S-Corporation owner-employees-capped at 2019 cash compensation and ER retirement contributions but not HI contributions (because already included in their comp).

General Partners-capped at the amount of their 2019 net earnings from self-employment multiplied by 0.9235. ER HI and ER retirement contributions not included.

Schedule C and F filers-capped by their own owner compensation replacement (calculated based on 2019 net profit). ER HI and ER retirement contributions not included.

FAQs cont'd

Q: Should our business be concerned about being “audited/reviewed” by the SBA?

A: Existing SBA guidance indicates that loans under \$2m will be considered made in good faith based on economic uncertainty. So it is unlikely many of these loans will be audited/reviewed, however the SBA can audit loans under \$2m.

SBA may review whether the borrower was eligible for the PPP loan; whether the information, certifications, and representations on both the borrower's application and loan forgiveness application are accurate and whether the borrower requested an improper loan amount.

For loans over \$2m, the certification that “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant” may be the primary focus of the SBA.

The SBA has indicated that *“Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business. For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification”.*

The SBA suspended their ordinary requirement that borrowers must be unable to obtain credit elsewhere, therefore we do not believe access to normal bank financing will be an issue. However, Companies with access to private equity or public markets should anticipate scrutiny.

FAQs cont'd

- Q: If it takes a company more than 8 weeks, but less than 24 weeks to spend the PPP funds, can they apply for forgiveness at the point money is spent (say in 12 or 20 weeks)?**
- A:** Yes, however you must apply any salary or hourly wage reductions more than 25% over the entire covered period (24 weeks).
- Q: When do you have to decide if you want to use the 8-week period or a 24-week period?**
- A:** There hasn't been any indication that you will have to "declare" your intentions at any point before filing for forgiveness. Therefore, we believe you can use whichever covered period is most advantageous or if using the 24 weeks any time frame in between the 8 and 24 weeks.
- Q: Can you spend 100% on payroll during the 24 weeks?**
- A:** Yes, and this may be a good planning tip. If you spend 100% of the PPP funds on payroll, you don't have to provide documents supporting all of the other eligible expenditures.

FAQs cont'd

- Q: If a business can't use 60% of the PPP funds on payroll, will they still get partial forgiveness?**
- A:** Based on clarifications made by the SBA and Treasury, the minimum amount of forgiveness can be determined by taking the amount spent on payroll costs and dividing by 60%. The formula for forgiveness is no longer considered a "cliff" of requiring at least 60% of the loan amount being spent on payroll costs.
- Q: Can we count our first payroll paid during the Covered Periods plus the payroll earned through the end of the Covered Period, even though it was paid after the Covered Period?**
- A:** Yes, based on the instructions issued all payroll paid directly to employees plus any amounts incurred during the Covered Period and paid before the next regular payroll date are eligible for forgiveness.
- The instructions further define paid as "Payroll costs are considered paid on the day that paychecks are distributed or the Borrower originates an ACH credit transaction" and incurred as "Payroll costs are considered incurred on the day that the employee's pay is earned. Payroll costs incurred but not paid during the Borrower's last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if paid on or before the next regular payroll date

FAQs cont'd

Q: Is the safe harbor on December 31 based on “capacity” due to state restrictions, or can it be based on reduction in revenue based on the impacts of COVID-19?

A: Business activity has not been defined. Expect further guidance on this question.

Q: Can I include expenses within the forgiveness when those same expenses were charged to other Federal awards and I have been reimbursed for those expenses?

A: No, expenses can only be counted once. Costs paid with the PPP or any other Federal CARES Act program must not be also charged to current Federal awards as it would result in the Federal government paying for the same expenditure twice.

FAQs cont'd

Q: Are CAM and property taxes included as “rent for forgiveness”?

A: The CARES Act and instructions as written only include “Rent”. Stay tuned for more guidance.

Q: What is included in transportation costs?

A: There is no official guidance. For now we suggest you only include fuel costs and mileage reimbursements.

Q: What is included in utilities?

A: Electricity, gas, water, transportation, telephone or internet access for service which began prior to February 15, 2020. **Gas used when driving a business vehicle is included.** Other common utilities such as garbage collection or security monitoring may also be classified as a utility, but a business should confirm with their lender first.

Polling Question

Do you expect to use the full 24 weeks for forgiveness or a time prior to the end of the 24 weeks?

Full 24 weeks
Prior to 24 weeks

FAQs cont'd

Q: Interest accrued from day one of being funded and, per the SBA, can be included within the forgiveness amount, so why is it not included on the PPP Loan Forgiveness Applications?

A: Interest will be paid to the lender by the SBA at the time when the SBA provides the amount of forgiveness to the lender. Guidance is not out on how the interest would be determined if partial forgiveness is provided.

Q: Would I still get full loan forgiveness if I have reductions of 50% (salary/hourly wage and FTE reductions) but my qualifying costs during the covered period are twice as much of the PPP loan?

A: We believe the answer is Yes because the application takes all qualifying costs and reduces that amount by the reductions. We believe clarification needs to come out on this.

FAQs cont'd

Q: Can a borrower whose loan was received prior to June 5, 2020 use the June 30, 2020 Salary/Hourly wage reduction and FTE reduction safe harbors instead of December 31, 2020?

A: No, the June 30 date was replaced entirely by December 31, however, the forgiveness application does allow the borrower to use the earlier of December 31, 2020 or the date the application is submitted.

Q: Can you increase pay or pay bonuses to employees during the forgiveness/covered period?

A: Yes up to the maximum limits set forth in the guidance.

FAQs cont'd

Q: Can rent or other eligible nonpayroll costs be prepaid?

A: No, eligible costs must be incurred during the covered period, so prepaid costs would not qualify.

Q: Are the expenses used for PPP tax deductible if the loan is ultimately forgiven?

A: No, IRS Notice 2020-32 was issued on April 30, 2020 to state that no deduction is allowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a PPP loan. Congress wants to allow for deductibility and may later this year.

FAQs cont'd

Q: Is the forgiveness of the loan taxable income?

A: No, the forgiveness of the loan does not constitute federal taxable income. **For Ohio CAT, the PPP forgiveness is not taxable as well.**

Q: Are payments to related parties (such as rent) included as eligible nonpayroll costs?

A: This has not been specifically addressed in the guidance released.

Q: Should I apply for forgiveness as soon as I am able with my lender?

A: Hard to say, AICPA is saying that there is no benefit to apply early especially when using the 24 weeks. If you have potential reductions because of Salary/Hourly wage or FTE reductions then you may want to wait to get maximum qualifying expenses so you may still get full loan forgiveness.

FAQs cont'd

Q: What do I use to help me calculate all of what is needed for the loan forgiveness application?

A: The AICPA has developed a template called the Loan Forgiveness Calculator and it is available for download on their website or click this link <https://future.aicpa.org/resources/toolkit/paycheck-protection-program-resources-for-cpas>

Q: I am running out or have used all my PPP funds, what other relief can I receive?

A: Look out for Phase 2 of PPP and other options are (1) EIDL, (2) Employee Retention Credit (ERC), (3) Payroll Tax Deferment, (4) Main Street Lending Programs, and (5) other State, Local, private grants, landlords, etc.

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Please contact us with any questions



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