

PPP Loan Forgiveness

*December 15, 2020
Update*



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PPP Loan Forgiveness

Overview

- Loan payments deferred until forgiveness is determined, or 10 months after the end of the 24-week covered period if forgiveness is not applied for.
- Banks have 2 months to process the forgiveness application, SBA has 3 months to process it.



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Status of Banks' acceptance of application as of 12/15/20

	Accepting applications?	Online portal *	Notes
Bank of Moundville	Y	N	
BankFirst	Y	N	
Synovus	Y	Y	by invitation
Regions	Y	Y	by invitation
Bryant Bank	Y	Y	Portal by invitation
ServisFirst	Y	Y	
BBVA	N		website says Portal to come
PNC	N		website says Portal invitation to come, not yet accepting
Robertson Bank	Y	N	
Renasant	Y	Y	
Cadence	Y	Y	by invitation
SmartBank	Y	Y	email ppp@smartbank.com with EIN to request link if client did not receive



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- The PPP loan forgiveness is based on the amount of eligible costs paid during the 24 weeks following receipt of PPP loan proceeds (the 24-week covered period).
- Alternatively, if you received your PPP loan prior to 6/5/20, you may elect to use an 8-week covered period.
- If you do not maintain “normal” employee count or compensation levels during the 24-week covered period, you may have a reduction in your eligible costs.



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What is INCLUDED in payroll costs?

- Salaries, wages, commissions, or tips paid to nonowner employees (per employee cap of \$46,154 over the 24-week covered period, \$15,385 over an 8-week covered period).
 - This can include bonuses, hazard pay, and compensation to furloughed employees.



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What is INCLUDED in payroll costs?

- Amounts paid to self-employed individuals, general partners, or owner-employees, capped at the lesser of:
 - 1) 2.5 months of their 2019 compensation (8 weeks' worth if electing to use the 8-week period) or
 - 2) \$20,833 (\$15,385 if electing to use the 8-week period).
- Self-employed: 2019 Schedule C net profit
- S Corp Shareholder: W-2 compensation
- General partner: 2019 K-1 SE income, less 179, x 0.9235



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What is INCLUDED in payroll costs?

- Employee health insurance contributions paid by the employer (excluding employee contributions).
 - Do not include amounts paid for self-employed individuals, general partners, or owner-employees of S-corporations.



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What is INCLUDED in payroll costs?

- Retirement plan contributions paid by the employer (excluding employee contributions).
 - Do not include amounts paid for self-employed individuals or general partners.
 - Owner-employee contributions are limited to 2.5 months of the 2019 amount.
- Employer state & local taxes (e.g. state unemployment).



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What is EXCLUDED from payroll costs?

- Any compensation of an employee whose principal place of residence is outside the U.S.
- Qualified sick and family leave wages for which a credit is allowed under the Families First Coronavirus Response Act.



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60% payroll cost requirement:

- In order to receive full loan forgiveness, you must spend at least 60% of your loan proceeds on payroll costs.
- If you spend less than 60% on payroll costs, you will still be able to receive partial forgiveness.



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What are nonpayroll costs (40% loan forgiveness cap)?

- Interest paid on debt incurred before 2/15/20 that is mortgaged by real or personal property.
- Rent paid under a real or personal property leasing agreement in force before 2/15/20
- Payments for utility services which began before 2/15/20, including utility services for:
 - Electricity
 - Gas
 - Water
 - Transportation
 - Telephone
 - Internet



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Eligible costs paid and incurred

- Payroll costs are considered paid on the day that paychecks are distributed and considered incurred on the day the pay is earned.
 - Payroll costs incurred but not paid during the borrower's last pay period of the covered period are eligible for forgiveness if paid on or before the next regular payroll date.
- Nonpayroll costs must be paid during the covered period or incurred during the covered period and paid on or before the next regular billing date.



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You can use the 3508S application for loans of \$50,000 or less

- And, together with any affiliates, did not receive PPP loans totaling \$2 million or greater
- Form requires little information
- Provide report of gross payroll during the covered period and 2nd and 3rd quarter payroll tax returns.
- Self-employed individual with no employees only must provide copy of 2019 Schedule C with S application.



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You can use the EZ application if you meet one of the following criteria:

- You did not reduce any employee's* salary/hourly wage by more than 25% AND
 - you did not reduce your employee count or hours worked** between 1/1/20 and the end of the covered period or
 - during the 24-week covered period, you were unable to operate at pre-2/15/20 levels due to COVID-19 governmental restrictions.



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***Who counts as an employee for the salary/hourly wage reduction?**

- For purposes of determining whether you reduced an employee's hourly/salary wage by more than 25%, only consider employees who did not receive more than \$100,000 of wages in 2019.



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****How do I calculate my average Full-Time Equivalency (FTE)?**

- For each employee, determine the average number of hours paid per pay period over a given period, divide by the 40-hour week equivalent of the pay period, and round to the nearest tenth, not to exceed 1.0.
- Alternatively, you may use a simplified method by assigning a 1.0 for employees working 40 or more hours per week, and 0.5 for employees working less than 40 hours per week.



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**How do I calculate my average Full-Time Equivalency (FTE)?

- During the 24-week covered period, the following FTE Reduction Exceptions apply:
 1. Any employee laid off after 2/15/20 who declined a written rehire offer.
 2. Any employee who rejected an offer to restore hours.
 3. Any employees who (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested a reduction in hours.
- Exceptions don't apply if replaced by new employees.



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What if I did have a salary/hourly wage reduction >25%?

- Step 1. Determine if pay was reduced more than 25%.
- a. Enter average annual salary or hourly wage during Covered Period or Alternative Payroll Covered Period: _____
 - b. Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020: _____
 - c. Divide the value entered in 1. a. by 1. b. _____
If 1. c. is 0.75 or more, enter zero in the column above box 3 for that employee; otherwise proceed to Step 2.
- Step 2. Determine if the Salary/Hourly Wage Reduction Safe Harbor is met.
- a. Enter the annual salary or hourly wage as of February 15, 2020: _____
 - b. Enter the average annual salary or hourly wage between February 15, 2020 and April 26, 2020: _____
 - If 2. b. is equal to or greater than 2. a., skip to Step 3. Otherwise, proceed to 2. c.
 - c. Enter the average annual salary or hourly wage as of the earlier of December 31, 2020 and the date this application is submitted: _____
If 2. c. is equal to or greater than 2. a., the Salary/Hourly Wage Reduction Safe Harbor has been met -- enter zero in the column above box 3 for that employee. Otherwise proceed to Step 3.
- Step 3. Determine the Salary/Hourly Wage Reduction.
- a. Multiply the amount entered in 1. b. by 0.75: _____
 - b. Subtract the amount entered in 1. a. from 3. a. _____
- If the employee is an hourly worker, compute the total dollar amount of the reduction that exceeds 25% as follows:
- c. Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020: _____
 - d. Multiply the amount entered in 3. b. by the amount entered in 3. c. _____ Multiply this amount by 24 (if Borrower is using a 24-week Covered Period) or 8 (if Borrower is using an 8-week Covered Period). Enter this value in the column above box 3 for that employee.
- If the employee is a salaried worker, compute the total dollar amount of the reduction that exceeds 25% as follows:
- e. Multiply the amount entered in 3. b. by 24 (if Borrower is using a 24-week Covered Period) or 8 (if Borrower is using an 8-week Covered Period): _____ Divide this amount by 52: _____ Enter this value in the column above box 3 for that employee.



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What if I did have a reduction in employee count but was able to operate at normal levels?

FTE Reduction Safe Harbor 2:

- 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, FTE Reduction Safe Harbor 2 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 the earlier of December 31, 2020, and the date this application is submitted: _____
- 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 2 has been satisfied. Otherwise, FTE Reduction Safe Harbor 2 does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.



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What if I do not meet the FTE Reduction Safe Harbor 2?

- Your eligible costs will be reduced if your Average FTE during the 24-week covered period is less than your Average FTE during the lesser of the following reference periods:
 - 2/15/19 – 6/30/19
 - 1/1/20 – 2/29/20



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What will this look like on the application?

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



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What will this look like on the application?

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 any of the above criteria aren't met:




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What will this look like on the application?

<u>Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions</u>	
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):	
<u>Potential Forgiveness Amounts</u>	
Line 8. Modified Total (multiply line 6 by line 7):	
Line 9. PPP Loan Amount:	
Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60):	
<u>Forgiveness Amount</u>	
Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	




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Documentation required with the application:

- Computation of the FTE count in covered period and chosen reference period
- Bank statements or third-party payroll service provider reports documenting cash compensation paid to employees during covered period and chosen reference period
- Calculation of and documentation of eligible owner compensation
- Quarterly 941 forms and state unemployment insurance tax filings



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Documentation required with the application:

- If other costs are included in your eligible costs:
 - Employer contributions to employee health insurance and retirement plans – Payment receipts, cancelled checks, or account statements
 - Business mortgage interest payments – Lender amortization schedule and receipts or cancelled checks; or lender account statements



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Documentation required with the application:

- Business rent/lease payments – Lease agreement and receipts or cancelled checks; or lessor account statements
- Business utility payments – Invoices from February 2020 and those paid during the Covered Period, as well as receipts or cancelled checks



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Income tax implications:

- In May, the IRS issued Notice 2020-32 stating that a taxpayer may not deduct expenses to the extent they are used in the forgiveness of the PPP loan.
- Revenue Ruling 2020-27 further emphasized Notice 2020-32 by disallowing deduction of expenses related to the PPP loan forgiveness up to the amount it reasonably expects to be forgiven, whether the application has been submitted or not, and whether the forgiveness has been granted or not, by year-end.



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