



PrestigePEO

October 21, 2020

Forgivable Costs and Recent PPP Updates

Today's Presenters



Jason Flinn

Today's Moderator,
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Today's Agenda



- What “Forgivable Costs” and “Payroll Costs” can be included
- Factors that can reduce forgivable amounts and the “safe harbors” that eliminate the penalties
- Introduce new application and review New Form 3508S
- Loan forgiveness timeline and the review process
- Recap of the Prestige PPP Forgiveness Reports

Webinar Forum

- ❖ All participants are muted.
- ❖ Please type questions in the side navigation panel and we will try to address most questions during today's session.
- ❖ Today's presentation will be posted online at prestigepeo.com/blogs/

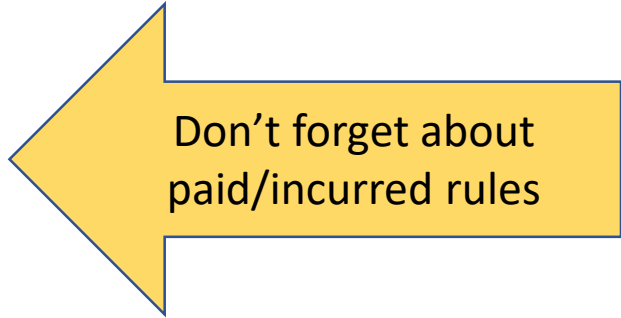
What Costs are Forgivable?

REMEMBER: Both “Payroll Costs” and certain “Nonpayroll Costs” are forgivable, but for full forgiveness, at least 60% of loan proceeds must have been spent on “Payroll Costs”

What Costs are Forgivable

Eligible “Payroll Costs”

- Compensation to employees as salary, wages, commissions
- Cash tips or the equivalent
- Payment for vacation or sick leave
- Separation/Dismissal payments
- Payment for health and retirement benefits
- Payment of state and local taxes assessed on employee comp



Don't forget about
paid/incurred rules

But not:

- Payment to employees outside the USA
- Federal employment taxes imposed or withheld
- Qualified sick and family leave wages under FFCRA
- Wages paid under SDI or PFML insurance



What Reduces the Forgivable Amount



- A reduction in the full-time equivalent employees during the Covered Period, relative to the chosen “look-back period”
- A greater than 25% reduction in employee salary/wage rate during the covered period, relative to the period 1/1/20-3/31/20 for employees making <\$100,000 in 2019 or new hires in 2020

Determining Whether There Has Been An FTE Reduction

Step 1 (Sched A Line 12)

Business calculates an “Average FTE Score” for each employee during Covered Period

Calculate average number of hours paid per week, divide by 40

Step 2 (Sched A Line 11)

Business calculates an “Average FTE Score” for each employee during the “look-back” periods

Look-back period is either Feb. 15, 2019-June30, 2019 or Jan. 1-Feb 29, 2020

Step 3 (Sched A Line 13)

Divide “Step 1” number by “Step 2” number

If less than 1.0 a reduction could apply

FTE Reduction Exception

When performing Step 1 calculation, the business can include:

- Positions for which business made a good-faith, written offer to restore any reduction in hours, at same salary or wages during covered period and employee rejected offer
- Business was unable to hire similarly qualified employees for unfilled positions
- Any employees fired for cause during the Covered Period
- Any employees who voluntarily resigned during the Covered Period
- Any employees who voluntarily requested and received a reduction of hours

Note: This helps you “pass the test” described on the previous slide, but does not guarantee there is no reduction due to FTE reduction

FTE Reduction Safe Harbors

If **either** of the following **apply**, then there is **no reduction** to loan forgiveness based on a reduction in FTE employee levels:

1. Business can document in good faith that it was unable to operate between Feb. 15, 2020 and the end of the Covered Period at the same level of business activity due to compliance with guidance issued by HHS/CDC/OHSA related to maintenance of standards for sanitation, social distancing, or other safety requirement related to Covid-19.

OR

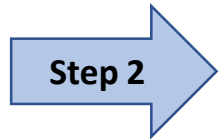
2. Business reduced its FTEs during the period between Feb 15, 2020 and April 26, 2020 and then restores its FTE's by no later than December 31, 2020 to the levels in its pay period that included February 15, 2020.

NOTE- If either of the above apply, the business “passes” the FTE reduction test automatically!

Salary/Wage Reduction Safe Harbor



Take the employee's annual salary/wage as of Feb. 15, 2020.



Is the employee's average annual salary/wage between Feb. 15 and April 26, 2020 less than Step 1.



If the answer to Step 2 is "yes" then continue to Step 4. If "no" safe harbor does not apply.



Is the employee's average annual salary/wage as of the earlier of Dec. 31, 2020 or date of forgiveness application is submitted greater than Step 1?




If the answer to Step 4 is "yes" then the safe harbor applies, and the employee is not considered to have a salary/wage reduction.

Loan Forgiveness Application “EZ”

- Released by Treasury/SBA on June 17, 2020.
- Generally allows borrowers in one of three categories to avoid the listing of employees, compensation, FTE scores, etc. on the application.
- Can be used by borrowers that fall into one of the following categories:
 - Self-employed individuals/sole proprietors with no employees at application for PPP Loan and did **not** include employee salaries in the payroll costs on forgiveness application.
 - Employers that did **not** reduce salary/wage rates by 25% for employees under \$100,000 annual pay AND did **not** reduce the number of employees or average hours of employees between Jan 1, 2020 and the end of the covered period.
 - Employers that did **not** reduce salary/wage rates by 25% for employees under \$100,000, AND were **unable** to operate at the same level of business activity as before Feb. 15, 2020 due to Covid-19).

Loan Forgiveness Application “EZ”

 **Paycheck Protection Program**
PPP Loan Forgiveness Application Form 3508EZ OMB Control No. 3245-0407
Expiration date: 10/31/2020

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: _____
Line 2. Business Mortgage Interest Payments: _____
Line 3. Business Rent or Lease Payments: _____
Line 4. Business Utility Payments: _____
Potential Forgiveness Amounts
Line 5. Add the amounts on lines 1, 2, 3, and 4: _____
Line 6. PPP Loan Amount: _____
Line 7. Payroll Cost 60% Requirement (divide Line 1 by 0.60): _____
Forgiveness Amount
Line 8. Forgiveness Amount (enter the smallest of Lines 5, 6, and 7): _____

SBA Form 3508EZ (06/20)
Page 1

- No FTE scores!
- No Salary/Hourly Wage Reductions!
- No Schedule A!
- No Schedule A Worksheet!
- No listing of employees!
- No listing of employee compensation!


New Loan Forgiveness Application 3508S

- Released by Treasury/SBA on October 8, 2020
- Can be used if the total PPP loan amount received by the borrower was \$50,000 or less
 - However, if the borrower and its affiliates received PPP loans totaling \$2 million or more, cannot use this form even if borrower's loan was < \$50,000
- Rule issued at same time as application provides that PPP borrowers of \$50,000 or less are exempted from any reductions in forgiveness based on:
 - Reductions in FTE employees; and
 - Reductions in employee salary and wages



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New Loan Forgiveness Application 3508S

 **Paycheck Protection Program**
PPP Loan Forgiveness Application Form 3508S

OMB Control No. 3245-0407
Expiration date: 10/31/2020

A BORROWER MAY USE THIS FORM ONLY IF THE BORROWER RECEIVED A PPP LOAN OF \$50,000 OR LESS.
A Borrower that, together with its affiliates, received PPP loans totaling \$2 million or greater cannot use this 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: _____

Forgiveness Amount: _____

By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The Authorized Representative of the Borrower certifies to all of the below by **initialing** next to each one.

_____ The dollar amount for which forgiveness is requested does not exceed the principal amount of the PPP loan and:

- was used to pay costs that are eligible for forgiveness (payroll costs to retain employees, business mortgage interest payments, business rent or lease payments, or business utility payments);
- includes payroll costs equal to at least 60% of the forgiveness amount;
- if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
- if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.

_____ I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.

_____ The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness, and has accurately calculated the forgiveness amount requested.


_____ I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.

_____ The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.

_____ The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.

_____ I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

 Signature of Authorized Representative of Borrower _____ Date _____

Print Name _____ Title _____

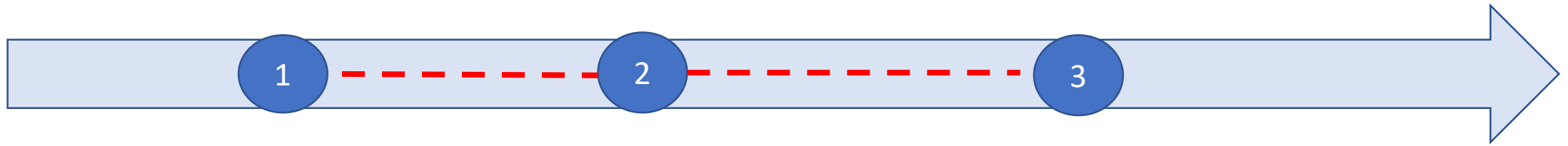
SBA Form 3508S (10/20)

- Exempt from FTE reductions
- Exempt from Salary/Hourly Wage Reductions
- Not required to show calculations used to determine forgiveness amount

Loan Forgiveness Timeline

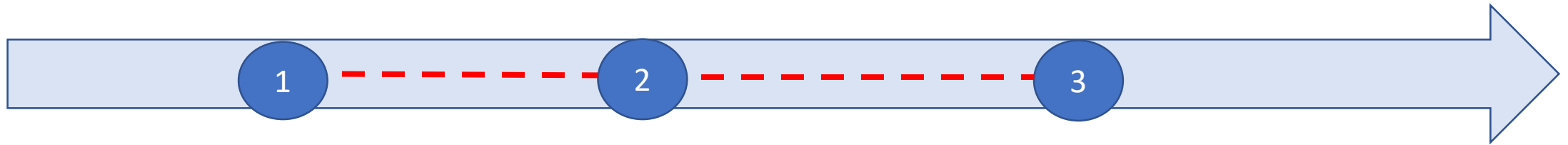
- PPPFA – Lenders will have to allow for deferral until the date on which the amount of the loan ***forgiveness*** is remitted by SBA to the lender
 - After the loan forgiveness application is filed, the lender is responsible for notifying the borrower of remittance by SBA of the loan forgiveness amount (or that SBA determined that no amount of the loan is eligible for forgiveness) and the date on which the borrower's first payment is due, if applicable.
 - If the borrower does not apply for loan forgiveness within 10 months after the last day of the covered period, the PPP loan is no longer deferred, and the borrower must begin paying principle and interest. If this occurs, the lender must notify the borrower of the date the first payment is due.
 - SBA issued an FAQ on October 7 providing that the extension of the deferral period under the PPPFA automatically applies to **all** loans (including loans issued prior to PPPFA). Lenders were directed to notify borrowers of the change in deferral period, and no formal modification to the promissory note is necessary.

Loan Forgiveness Timeline



- Borrower submits loan forgiveness application
- Lender has 60 days from receipt of application to issue a decision to SBA
 - If application is approved in whole or in part, lender submits appropriate supporting information and request for payment to SBA.
 - If lender determines borrower is not entitled to forgiveness in any amount, lender must notify borrower and SBA.
 - Borrower then has 30 days to notify lender if it wants to request that SBA review lender's decision
 - If request is made, lender must advise SBA within 5 days of receipt
 - SBA will notify lender if it declines request for review; if it accepts request for review, will notify both borrower and lender of its conclusions.
- SBA has 90 days to review lender's decision

Loan Forgiveness Timeline



- Certain SBA loan review decisions can be appealed to SBA's office of Hearing and Appeals within 30 calendar days after earlier of: (1) receipt of final SBA loan review decision or (2) notification by lender of final SBA loan review decision.
- What can be appealed?
 - Determination by SBA that borrower was ineligible for PPP loan
 - Determination by SBA that borrower was ineligible for PP loan amount received, or used loan proceeds for unauthorized uses
 - Determination by SBA that borrower is ineligible for PPP loan forgiveness in amount determined by lender

What can't be appealed?

- Any decision made by a lender
- Determination by SBA's OIG concerning a PPP loan

Prestige Forgiveness Reporting

Prestige PPP Loan Report

Excel file with multiple tabs

- Schedule A Worksheet – Table 1
- Schedule A Worksheet – Table 2
- Schedule A Worksheet – FTE SH
- Schedule A
- Six more sheets of raw data



Schedule A Worksheet

Fourth tab in the Excel file

Total Payroll Costs

FTE Reduction Quotient



PPP Schedule A Worksheet, Table 1 Totals

Line 1.	Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:	<u>\$380,375.86</u>
Line 2.	Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:	<u>13.2</u>
Line 3.	Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:	<u>\$0.00</u>
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 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.		<u>CHECK</u>

PPP Schedule A Worksheet, Table 2 Totals

Line 4.	Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:	<u>\$181,821.64</u>
Line 5.	Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:	<u>4.0</u>

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

Line 6.	Total amount paid by Borrower for employer contributions for employee health insurance:	<u>\$22,505.86</u>
Line 7.	Total amount paid by Borrower for employer contributions to employee retirement plans:	<u>\$0.00</u>
Line 8.	Total amount paid by Borrower for employer state and local taxes assessed on employee compensation:	<u>\$3,503.25</u>

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 include, attach a separate table that lists the names of and payments to each.	<u>\$41,666</u>
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Total Payroll Costs

Line 10.	Payroll Costs (add lines 1, 4, 6, 7, 8, and 9):	<u>\$629,872.61</u>
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Full-Time Equivalency (FTE) Reduction Calculation

Line 11.	Average FTE during the Borrower's chosen reference period:	<u>3.4</u>
Line 12.	Total Average FTE (add lines 2 and 5):	<u>17.2</u>
Line 13.	FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met:	<u>1.0</u>

Prestige Forgiveness Reporting

Schedule A Worksheet - Table 1

Employees paid less than \$100,000
in 2019 or new employees in 2020

Prestige Schedule A Worksheet - Table 1				
Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
Angela Admin	1234	\$7,000.00	0.8	800
Betty Bookkeeper	5678	\$9,600.00	1.0	0
Carla Controller	9012	\$10,000.00	1.0	1000
Debbie Director	3456	\$15,385.00	1.0	0
Eleanor Electrician	7890	\$9,900.00	0.9	0

Schedule A Worksheet - Table 2

Employees paid more than \$100,000 in 2019

Prestige Schedule A Worksheet - Table 2			
Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Felicia Finance	9876	\$15,385.00	1.0
Gladys Graphicdesign	5432	\$14,000.00	1.0

Prestige Forgiveness Reporting


Schedule A – FTE SH (Safe Harbor) – PPP Flexibility Act

- Used if FTE quotient on Schedule A is less than 1.0

FTE 2/15/20 -04/26/20

FTE 2/15/2020

FTE End of Covered Period

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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:	19.1
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:	19.2
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 the end of your covered period:	20.4
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 the schedule.	

Prestige Forgiveness Reporting

- Cannot run the report until the end of the covered period has been paid.
 - If covered period ends on Wed, Oct 20 with a pay period that ends on Friday, Oct. 30th with a check date of Wed, Nov 4, cannot run the report until Nov 4th checks are finalized.
- Safe Harbor Calculations
 - Restorations of FTE's or salary/hourly wages after the end of the covered period will not be reflected in the Prestige loan forgiveness report.
- 8 or 24 Weeks?
 - Both reports can be run for the borrower to decide which report to use.

Prestige Forgiveness Reporting

There is no rush to
apply for forgiveness!!



Client Communications

Prestige Communications

Today's presentation will be posted on PrestigePEO.com under

- [The Prestige Perspective](#)
prestigepeo.com/blogs
- [COVID-19](#) prestigepeo.com/covid-19/

Stay tuned for invitations to [future webinars](#). Our next event is planned for [Wed, Nov 4, 1:00pm](#).

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We Are Here For You