



# **Understanding the NEW PPP Loan Forgiveness Application**

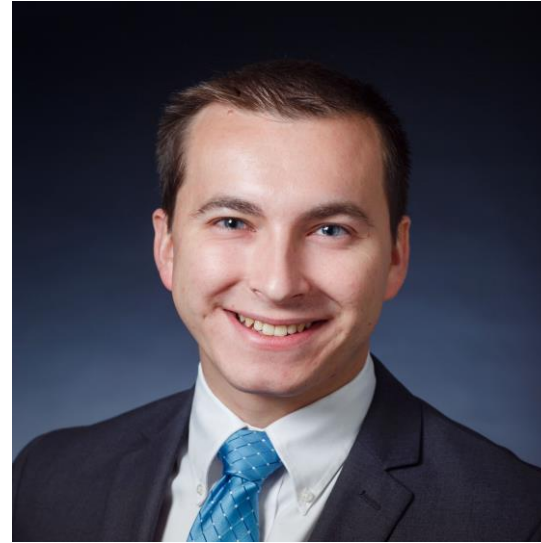
Wednesday, May 20, 2020 at 10:00 AM

The Webinar Will Begin Shortly

# Presenters



**Karen Shenk**, CPA, CVA, CCIFP, CFE  
Partner



**Dan Chodan**, CPA  
Manager

# Where is Robin??



# Where's Jason?





# Agenda

- Clarifications on Payroll Costs
- Clarifications on Full-Time Equivalent
- Further Forgiveness Clarifications
- How to Calculate Forgiveness Now
- How Trout CPA Can Help?

# Key Clarifications

## Payroll Costs

- Alternative Payroll Covered Period is the 56-day period beginning with the first day of the company's normal pay period.
- If the alternative payroll covered period is elected, the company must use that same period when calculating health insurance, retirement contributions, and when calculating FTEs.
- Nothing carved out for bonuses or hazard pay
- Still cannot include leave covered by FFCRA
- Do not include more than \$15,385 per employee



# Key Clarifications

## ▶▶▶ Full-Time Equivalents (FTEs)

- ▶ Use 40 hours per week, not 30 hours
- ▶ Exceptions:
  - ▶ Rejected a written offer to rehire
  - ▶ Fired for cause, voluntarily resigned, or requested reduction in hours and not replaced
- ▶ Simplified Method (over 40 hours = 1, under 40 hours =  $\frac{1}{2}$ )
- ▶ Safe Harbor if both the following are met:
  - ▶ Reduced FTEs from 2/15/2020 - 4/26/2020
  - ▶ Restored FTEs no later than 6/30/2020



# Key Clarifications

## »»» Timing of Costs

- » Paid OR Incurred

## »»» Overall Reduction for 25% Reduction in Wages

- » Calculated by employee

## »»» Owner Compensation

- » Lower of the current year or prior year



# Other Recent Developments

▶▶▶ Non-deductibility of expenses used with forgiven funds

▶▶▶ \$2 Million Safe Harbor

# Links to Application and Tools

- ▶▶▶ Trout CPA's Forgiveness Calculator (updated)  
<https://bit.ly/3e1R3k2>
- ▶▶▶ SBA Form 3508 PPP Forgiveness Application  
<https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>
- ▶▶▶ Trout CPA's Forgiveness Application Worksheets  
<https://bit.ly/3bKgHID>

Small Business Administration -- Paycheck Protection Program -- Estimated Loan Forgiveness Amount



ABC Sample Company Inc.

Loan Disbursement Date	4/15/2020	
Total Loan Amount	\$ 100,000	
Two Months of Accrued Interest at 1%	-	Accrued interest not included in SBA forgiveness application despite
Total Loan Amount Eligible for Forgiveness	100,000	inclusion in an interim final rule published. This may change.

Costs must be paid or incurred during the 8 week period following the loan disbursement date.

Businesses must be prepared to provide documentation of all expenses to bank in support the forgiveness calculation.

<u>Payroll Expenses</u>		Description/Definitions:
Total gross wages	45,770	Salaries, wages, commissions, cash tips and other compensation
Less gross wages in excess of \$100,000	-	Enter negative amount for wages exceeding \$100,000 per employee annualized (\$15,385 for the 8 week period)
Less gross wages of any employee whose principal residence is outside the U.S.	-	Enter negative amount
Less qualified sick or family leave for which a credit is allowed under The Families First Coronavirus Response Act (FFCRA)	-	Enter negative amount
Health insurance	10,000	Employer portion only
Retirement contributions	475	Employer portion only
State/local unemployment taxes	300	Employer portion only
Self-employed partner's compensation	-	Owner compensation is limited to the lower of the payments made during the 8 week period or the 8 week equivalent of 2019 compensation.
Schedule C owner compensation replacement	-	For a Schedule C owner, calculate at eight weeks' worth (8/52) of 2019 net profit (not to exceed \$100,000) per line 31 of form Schedule C.
	56,545	
<u>Other Expenses</u>		
Interest on debt secured by tangible assets	8,000	See Note #3 below
Rent for equipment and real estate	4,000	Must have a written lease agreement dated prior to 2/15/2020
Utilities	3,400	See utilities detail listed on next tab for data entry
	15,400	Total other expenses cannot exceed 25% of total loan forgiveness
Tentative Loan Forgiveness	71,945	

<p>1) A reduction in FTE's between 2/15/20 and 4/27/20 is disregarded if eliminated by 6/30/20 for purposes of reduction in number of employees and/or compensation</p>	
<p>2) Reduction does not apply to any employee who had wages, salary or compensation at an annualized rate of pay in an amount or more than \$100,000 in 2019</p>	
<p>3) Interest is on covered mortgage obligations on real or personal property incurred before 2/15/2020. Guidance issued 4/14/20 clarified that an auto loan is mortgage interest. This confirms any interest on debt can be used as long as tangible assets exist as</p>	
<p>4) Guidance on 4.14.20 indicated that other expenses will be limited for a Schedule C owner to those expenses deducted on 2019</p>	
<p>5) This form is based on guidance to date and will continue to be updated as more guidance becomes available. It may not cover all aspects of an organization's circumstances but may be a good starting point for working through calculations. We recommend to interact with your bank on the loan forgiveness process and calculations.</p>	
<p>6) Guidance on has indicated that forgiveness will not be reduced when a borrower offered to rehire an employee who was laid off, voluntarily resigned, or voluntarily requested reduced hours; but the employee declined the offer. Borrower must have the offer and rejection documented in writing to qualify. Employees fired for cause will also not reduce forgiveness. For the purpose of this calculator, each employee qualifying for this exception should be considered an FTE for the purpose of this reduction.</p>	
<p>7) The SBA application has clarified that costs will count when they are paid during the 8 week period or incurred during the 8 week and paid by the next normal billing date. This guidance eliminated the need to make partial payments or move payroll dates to coincide with the 8 week period.</p>	
<p>8) The SBA application has provided an "Alternative Payroll Covered Period" which allows borrowers to elect to calculate eligible payroll costs using the eight-week (56 day) period that begins on the first day of their first pay period following their PPP loan Disbursement Date.</p>	

## Utilities Expenses Eligible for Loan Forgiveness

v.5.20.20

*Subject to change as additional guidance is issued.*

**Costs must be paid or incurred during the 8 week period following the loan disbursement date.**

**Businesses must be prepared to provide documentation of all expenses to bank in support the forgiveness**

Electric	3,400	
Gas	-	} Utilities specifically defined in the CARES Act.
Water	-	
Transportation	-	
Telephone	-	
Internet	-	
Gas used in business vehicles	-	Defined as utility in 4.14.20 Interim Final Rule
Other utilities	-	See note below
	<b>3,400</b>	

Additional utilities may be acceptable beyond what has been explicitly defined to date. Other potential costs may include trash, sewer, oil, cable, association fees, security, or other traditional utilities expense. Since guidance on 4.14.20 included "gas used in business vehicles" as a utility expense, there may also be potential to include other actual costs of business transportation such as tolls, parking, vehicle maintenance, other transportation costs, or a mileage reimbursement. Businesses should continue to monitor for new guidance of eligible utilities before submitting loan forgiveness and work closely with their bank to determine what is required.

**Update: The SBA's issued forgiveness application offers no further guidance on utilities**

**The SBA application has clarified that costs will count when they are paid during the 8 week period or incurred during the 8 week and paid by the next normal billing date.**

**Full Time Equivalent Calculator**

Subject to change as additional guidance is issued.

SBA loan application issued does not follow the same rule for FTEs as the Affordable Care Act. Instead of 30 hours per week as the FTE threshold, 40 hours is used. Additionally, a short-cut method is provided counting anyone over 40 hours as 1 FTEs and anyone under 40 hours as 0.5 FTEs. Additionally, FTEs are rounded to the nearest 0.1 rather than to the nearest whole number.

Owner-employees, self-employed individuals, and general partners are not included in the FTE calculations based on the SBA's loan application issued.

Seasonal employers may also elect any consecutive twelve-week period between May 1, 2019 and September 15, 2019.

**Method #1 Monthly Average FTEs from 2/15/2019 to 6/30/2019**

Feb-19	Mar-19	Apr-19	May-19	Jun-19	
20	25	22	23	25	Enter number of employees working 160 hours or more in month
800	1,643	1,600	1,540	1,235	Enter hours for all employees working less than 160 hours per month
80	160	160	160	160	Part-Time Hours are Divided by
10.0	10.3	10.0	9.6	7.7	Part-Time FTEs
20.0	25.0	22.0	23.0	25.0	Full-Time FTEs
30.0	35.3	32.0	32.6	32.7	Total FTEs

**32.8 Monthly Average FTEs**

**Method #2 Monthly Average FTEs from 1/1/2020 to 2/29/2020**

Jan-20	Feb-20	
20	25	Enter number of employees working 160 hours or more in month
1,600	1,700	Enter hours for all employees working less than 160 hours per month
160	160	Part-Time Hours are Divided by
10.00	10.60	Part-Time FTEs
20.00	25.00	Full-Time FTEs
30.00	35.60	Total FTEs

**32.80 Monthly Average FTEs**

**PPP Loan Forgiveness Calculation 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: \_\_\_\_\_

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 (enter the amount from PPP Schedule A, line 10): \_\_\_\_\_

Line 2. Business Mortgage Interest Payments: \_\_\_\_\_

Line 3. Business Rent or Lease Payments: \_\_\_\_\_

Line 4. Business Utility Payments: \_\_\_\_\_

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

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): \_\_\_\_\_

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7): \_\_\_\_\_

Line 9. PPP Loan Amount: \_\_\_\_\_

Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75): \_\_\_\_\_

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10): \_\_\_\_\_

**PPP Loan Forgiveness Calculation 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:   
 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 (enter the amount from PPP Schedule A, line 10):	56,545.00
Line 2. Business Mortgage Interest Payments:	8,000.00
Line 3. Business Rent or Lease Payments:	4,000.00
Line 4. Business Utility Payments:	3,400.00

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	2,884.62
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	69,060.38
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	0.83

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):	57,550.32
Line 9. PPP Loan Amount:	100,000.00
Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):	75,393.33

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	57,550.32
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## PPP Schedule A

### PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:	15,000.00
Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:	1.50
Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1: 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 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, check here <input type="checkbox"/> and enter 0 on line 3	2,884.62

### PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:	15,385.00
Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:	1.00

### 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:	10,000.00
Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans:	475.00
Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation:	300.00

### 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 included, attach a separate table that lists the names of and payments to each.	15,385.00
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### Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9):	56,545.00
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### Full-Time Equivalency (FTE) Reduction Calculation

If you have not reduced the number of employees or the average paid hours of your employees between  
January 1, 2020 and the end of the Covered Period, check here  , skip lines 11 and 12 and enter 1.0 on line 13.

Line 11. Average FTE during the Borrower's chosen reference period:	3.00
Line 12. Total Average FTE (add lines 2 and 5):	2.50
Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met:	0.83

**PPP Schedule A Worksheet**



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
Moe	1234	4,000.00	0.50	-
Larry	1111	5,000.00	0.50	2,884.62
Curly	2222	6,000.00	0.50	-
FTE Reduction Exceptions:				
Totals:		15,000.00	1.50	2,884.62
		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
Shemp	6789	15,385.00	1.00
Totals:		15,385.00	1.00
		Box 4	Box 5

Attach additional tables if additional rows are needed.

**FTE Reduction Safe Harbor:**

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, 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 June 30, 2020:

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 that schedule.

### Owner's Compensation Table

List owners who:

- Were owner-employees/self-employed individual/general partners
- These amounts may not be included in PPP Schedule A Worksheet, Table 1 or 2
- Enter the lesser of eight weeks worth of 2019 compensation, actual amount paid during the covered period, or \$15,385 (\$100,000 annual limit for 8 weeks)

Owner's Name	Owner Identifier	Cash Compensation
Joe Columbia	987-65-4321	15,385.00
<b>Totals:</b>		<b>15,385.00</b>
		To Sch A line 9

## Salary/Hourly Wage Reduction Calculation

Salary/Hourly Wage Reduction: This calculation will be used to determine whether the Borrower's loan forgiveness amount must be reduced due to a statutory requirement concerning reductions in employee salary and wages. Borrowers are eligible for loan forgiveness for certain expenditures during the Covered Period or the Alternative Payroll Covered Period. However, the actual amount of loan forgiveness the Borrower will receive may be less, depending on whether the salary or hourly wages of certain employees during the Covered Period or the Alternative Payroll Covered Period was less than during the period from January 1, 2020 to March 31, 2020. If the Borrower restored salary/hourly wage levels, the Borrower may be eligible for elimination of the Salary/Hourly Wage Reduction amount. Borrowers must complete this worksheet to determine whether to reduce the amount of loan forgiveness for which they are eligible. Complete the Salary/Hour Wage Reduction column only for employees whose salaries or hourly wages were reduced by more than 25% during the Covered Period or the Alternative Payroll Covered Period as compared to the period of January 1, 2020 through March 31, 2020. For each employee listed in Table 1, complete the following (using salary for salaried employees and hourly wage for hourly employees):

### 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:	37,500.00
b. Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020:	75,000.00
c. Divide the value entered in 1.a. by 1.b.:	0.50

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:	75,000.00
b. Enter the average annual salary or hourly wage between February 15, 2020 and April 26, 2020:	37,500.00
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 June 30, 2020:	37,500.00
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:	56,250.00
b. Subtract the amount entered in 1.a. from 3.a.:	18,750.00
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 8: 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 8:	150,000.00
Divide this amount by 52: Enter this value in the column above box 3 for that employee.	2,884.62

### Average FTE Calculation

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.

	Totals					
Normal Method	2.20					
Simplified Method	2.50					

Note: Do not include owners in the FTE calculations

Employee's Name	Total Hours Paid in 8 Weeks	Number of Weeks Worked	Average Hours Paid Per Week	Divide by 40 and Round to Nearest tenth	Normal Method	Simplified Method
					Average Weekly FTE	Average Weekly FTE
Moe	160.00	8.00	20.00	40.00	0.50	0.50
Larry	130.00	8.00	16.25	40.00	0.40	0.50
Curly	100.00	8.00	12.50	40.00	0.30	0.50
Shemp	400.00	8.00	50.00	40.00	1.00	1.00

# How Can Trout CPA Help?

- ▶▶▶ Continue to reach out to your points of contact
- ▶▶▶ Visit our website [www.troutcpa.com](http://www.troutcpa.com) for the latest COVID-19 Resources
- ▶▶▶ Assist as needed with Forgiveness Calculations



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