

June 8, 2020

PPP Loan Forgiveness Application

Question: On June 5, 2020, the PPP Flexibility Act was passed by the President, how will this affect PPP Forgiveness for borrowers?

Answer: The PPP Flexibility Act will make the following changes to the Payroll Protection Program guidelines:

- Allow forgiveness for expenses beyond the 8-week covered period to 24 weeks or until the end of the year, whichever comes first, also extending the rehiring deadline
- Increase the current limitation on nonpayroll expenses for loan forgiveness from 25 to 40 percent
- If at least 60% of the loan proceeds are not used for payroll, the loan will not be forgiven
- The program's due date will remain June 30, 2020
- Loan terms will be increased from 2 to 5 years
- Ensure full access to payroll tax deferment for businesses that take PPP loans

Question: How do I apply for PPP Loan Forgiveness?

Answer: In order to apply for the forgiveness of PPP loan funds, the Borrower must complete the Paycheck Protection Program Loan Forgiveness Application and submit the information to the Lender. The Application consists of the following components:

- 1) PPP Loan Forgiveness Calculation Form
- 2) PPP Schedule A
- 3) PPP Schedule A Worksheet
- 4) PPP Borrower Demographic Information Form (optional)

Components (1), (2) and (3) are required to be submitted.

EHTC suggests working through the forms in reverse order, beginning with the PPP Schedule A Worksheet, followed by PPP Schedule A and ending with the PPP Loan Forgiveness Calculation Form, as this has proven to be the easiest for Borrowers.



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Question: Within the PPP Loan Forgiveness application, there are references to two different periods, the Covered Period and the Alternative Payroll Covered Period. What do these two different time periods mean?

Answer:

Covered Period: Is the 56-day (eight-week) period in which Borrowers have to spend PPP Loan Funds for those funds to be eligible for Forgiveness. The first day of the Covered Period is marked by the day PPP Funds were deposited into the Borrowers bank account. The Covered Period ends 55 days later, for a total of 56 days. For example, PPP Loan Funds are deposited into your account on Monday, April 13, 2020 (Day 1 of the covered period). This Covered Period would end on Sunday, June 7th, for a total of 56 days.

Alternative Payroll Covered Period: At the election of the Borrower, the Borrower with a biweekly or more frequent payroll schedule may elect to calculate eligible payroll costs using the 56 day (eight week) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date. For example, PPP Loan Funds are deposited into your account on Monday, April 13, and the first day of the first pay period following April 13th is Monday, April 20th. April 20th would be the first day of the Alternative Payroll Covered Period and Sunday, June 14th would be the last day of the Alternative Payroll Covered Period. Please keep in mind that there are places through the PPP Loan Forgiveness Application where references are made to only the Covered Period and also references to the Covered Period or Alternative Payroll Covered Period. Where the application refers to Covered Period only, the Borrower must utilize the Covered Period, regardless of whether or not they are utilizing an Alternative Payroll Covered Period for purposes of determining eligible payroll costs. Where the application refers to the Covered Period or Alternative Payroll Covered Period, the Borrower must consistently utilize the Alternative Payroll Covered Period in all areas if they have chosen to elect the Alternative Payroll Covered Period.

Question: What period do I use for my eligible nonpayroll costs?

Answer: Eligible nonpayroll costs must be paid during the Covered Period if incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period.

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Question: On the PPP Schedule A Worksheet, there is a section to add the average FTE for each employee, how do I calculate this?

Answer: FTE Calculation –

To calculate the average full-time equivalency during the Covered period or the Alternative Payroll Covered Payroll for each employee:

Average Number of hours paid per week divided by 40 (total can be rounded to the nearest tenth):

- According to the CARES Act, an FTE is qualified as an individual that works an average of at **least** 30 hours per week
- The maximum for each employee is capped at 1.0
- If an employee works what can be considered part-time (under 30 hours/week), the average FTE can be 0.5

Question: What is the Salary/Hourly Wage Reduction?

- This section is only to be completed for any individual employee whose salary or hourly wage was reduced by more than 25% during the Covered Period or Alternative Payroll Covered Period as compared to the period of January 1, 2020 through March 31, 2020.
- If the Borrower restores salary/hourly wage levels prior to June 30, 2020, the Borrower is eligible for elimination of the Salary/Hourly wage reduction amount.

Question: What are the FTE Reduction Exceptions and what is the FTE Reduction Safe Harbor?

Answer: One requirement of the Paycheck Protection Program was that employers maintain their employment levels during the Covered Period or Alternative Payroll Covered Period in order to receive maximum loan forgiveness. However, there are several exceptions to Reductions to FTE Levels during the Covered Period or Alternative Payroll Covered Period. Additionally, the FTE Reduction Safe Harbor provides several different ways where employers can eliminate the reduction in loan forgiveness due to a reduction in FTE level during the Covered Period or Alternative Payroll Covered Period.

Exceptions to FTE Reductions During Covered Period or Alternative Payroll Covered Period:

- Employment positions for which the Borrower made a good-faith, written offer to rehire an employee which was rejected by the employee.
- Employees who were fired for cause, voluntarily resigned, or voluntarily requested and received a reduction of their hours.
- In each of the exception cases detailed in the previous two bullet points, these FTEs are reported on the PPP Schedule A Worksheet. FTE reductions pursuant to these exceptions do not reduce the Borrower's loan forgiveness.



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- Only count FTEs pursuant to these exceptions if the position was not filled by a new employee

FTE Reduction Safe Harbor:

- The FTE Reduction Safe Harbor exempts certain borrowers from a reduction in PPP Loan Forgiveness based on FTE employment levels.
- The Borrower is exempt from the reduction in PPP Loan Forgiveness based on FTE employees if **both** of the following conditions are met:
 - The Borrower reduces its FTE employee levels in the period beginning February 15, 2020 and ending April 26, 2020; and
 - The Borrower then restored its FTE employee levels by not later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.
- It is important to note that no partial credit will be received for partial rehiring under this safe harbor – only a full restoration of employment level will qualify a Borrower under this safe harbor.

The team at EHTC realizes that these are uncertain times and there are many questions surrounding the PPP Loan Forgiveness and strive to keep you informed on updated guidance from the Small Business Association and the Federal Government. Please do not hesitate to contact your EHTC Tax Advisor with any questions you may have as we are here to assist you and your business.

More information regarding COVID-19 for businesses and individuals can be found [here](#). If you have further questions or need additional guidance, please leave a message at (616) 575-3482 or email info@ehtc.com. Thank you for choosing EHTC as your strategic partner.