

# OVERVIEW OF PPP LOAN FORGIVENESS

June 26, 2020



AMERICAN  MOMENTUM BANK®

# HOUSEKEEPING

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- This webinar is being recorded, so anyone can watch it again as we will be posting it on our website, which you can see at <https://www.americanmomentum.bank/>

# WELCOME

- Welcome address by Patrick Fenech – Senior V.P/ .Managing Director – American Momentum Bank

# INTRODUCING CROWE LLP

Crowe LLP has a team of people focused on understanding the SBA Paycheck Protection Program, and the firm assists its clients with information and advice regarding their handling of PPP Loans.

This webinar presentation provides only a high-level overview of the SBA requirements and does not provide complete information sufficient for compliance with the SBA PPP requirements.

Crowe LLP is a public accounting, consulting and technology firm with offices around the world. Crowe uses its deep industry expertise to provide audit services to public and private entities. The firm and its subsidiaries also help clients make smart decisions that lead to lasting value with its tax, advisory and consulting services. Crowe is recognized by many organizations as one of the best places to work in the U.S. As an independent member of Crowe Global, one of the largest global accounting networks in the world, Crowe serves clients worldwide.

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This webinar is the first in a series of webinars intended to better inform borrowers about the requirements for submitting a request for PPP loan forgiveness. Emails will be sent prior to each webinar with a description of the topic and instructions for registering to attend.

The next scheduled webinar:

## **HOW TO SUBMIT A PPP LOAN FORGIVENESS REQUEST**

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July 13, 2020

# CROWE DISCLAIMER

This webinar presentation does not provide complete information sufficient for compliance with the SBA Paycheck Protection Program (the “PPP”), and it does not constitute (and is not a replacement for) consultation with your counsel or other advisors to understand how the requirements of the PPP apply to your specific situation. Participants should seek advice from their own counsel or advisors before acting on information presented.

Neither the Small Business Administration nor the Department of Treasury have finalized guidance regarding requirements of the PPP. Additional information, revisions to the Interim Final Ruling, answers to frequently asked questions, and regulatory rulings continue to be published or revised. The information in this webinar presentation and any related documents is subject to change.

The overview provided in this presentation and any related documents is not – and is not intended to be – legal, accounting, tax, consulting, investment, or other professional advice or opinion by Crowe LLP. This information is not intended to create, and receipt does not constitute, a legal relationship, including without limitation an accountant-client relationship. Crowe LLP assumes no obligation to provide notification of changes in tax laws or other factors that could affect the information provided. Crowe is not responsible for any loss incurred by any person who relies on the information discussed in this webinar presentation or any related document.

# TOPICS



PPP Loan  
Forgiveness  
Requirements



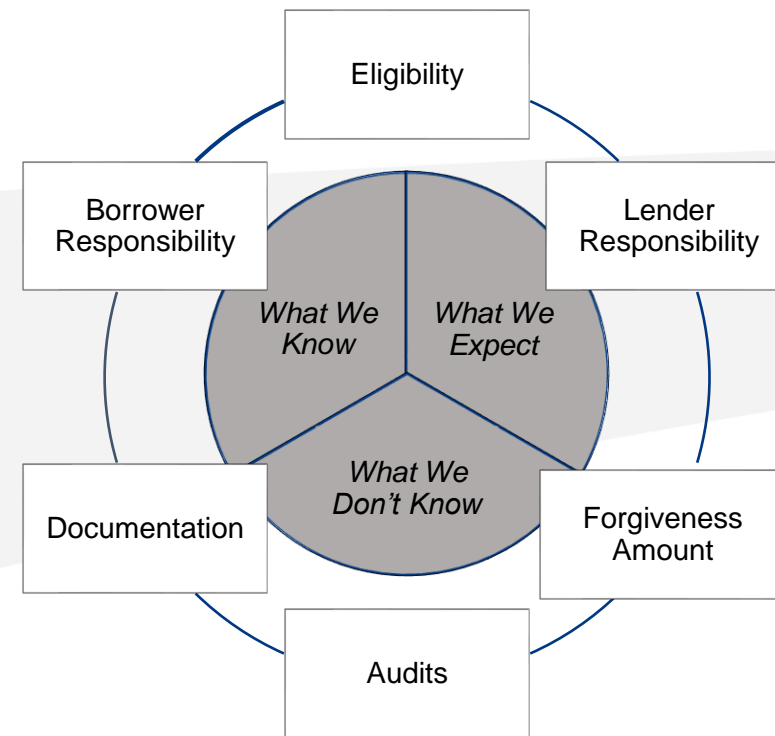
Hypothetical  
Examples



Frequently Asked  
Questions

# KEY PPP FORGIVENESS CONSIDERATIONS

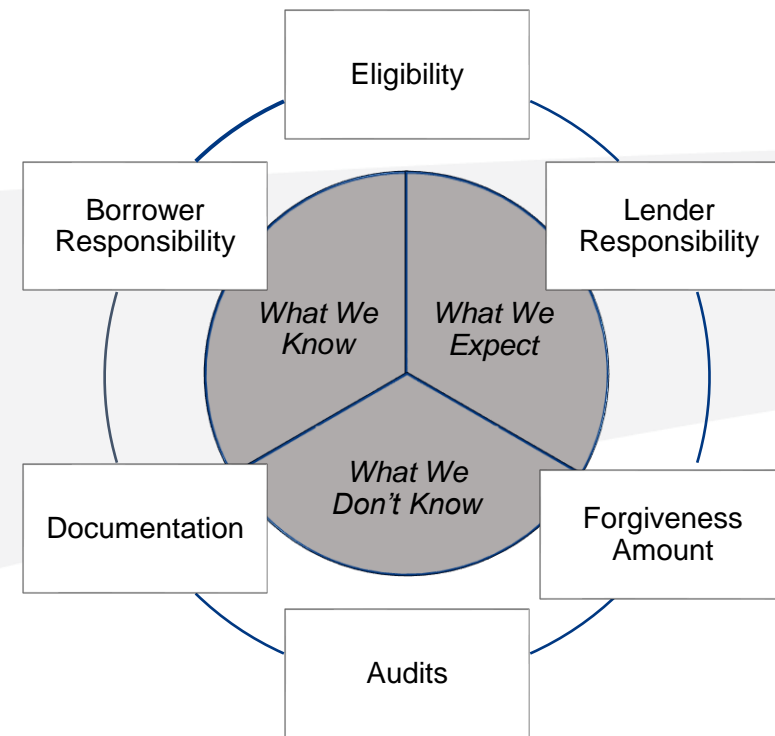
- We know there is a forgiveness application and certifications from the borrower.
  - ✓ We know the SBA provided the Schedule A worksheet to use in calculating and determining the forgiveness amount.
- We know borrowers will be expected to provide documentation evidencing their eligible expenditures and disbursement of payment when submitting their loan forgiveness application.
- We know the existing guidance ties the amount of forgiveness to the expenditures on payroll costs and selected other costs.
- We know costs paid or incurred during the defined Covered Period are the only eligible costs for the forgiveness calculation.
  - ✓ We know that borrowers may elect to adjust the covered period to align with the timing of their payroll cycle.
- We know there are limitations on forgiveness based on employee counts and changes in pay levels.





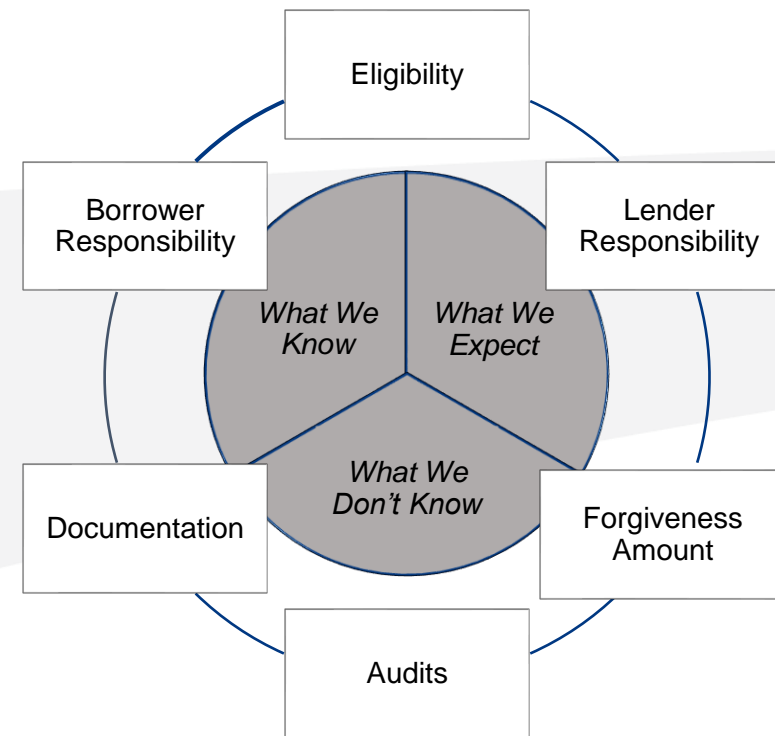
# KEY PPP FORGIVENESS CONSIDERATIONS

- We know lenders will have the responsibility to submit the forgiveness request to the SBA, and to assemble a complete package of documentation and certifications which support the borrower's forgiveness request.
- We know PPP loans over \$2M will be audited.
  - ✓ We expect random and targeted audits of loans under \$2 million.
- We expect that reconfirmation of original eligibility will be part of the process for approving a forgiveness request.
- We expect that lenders will have responsibility for a reasonableness review of the forgiveness request and supporting documentation.
- We expect that many borrowers do not fully understand the limitations on forgiveness and that what borrowers expect may not align with what the SBA allows.



# KEY PPP FORGIVENESS CONSIDERATIONS

- We don't know how complete and clear the guidance from the SBA will be.
  - ✓ We know the government has learned from the origination phase.
  - ✓ We expect guidance to evolve over time.
- We don't know the impact of future legislative changes if any.



# Loan Forgiveness Requirements



# KEY PPP REQUIREMENTS – USE OF FUNDS

## Time Period

Expenses incurred during the Covered Period or Alternative Payroll Covered Period are eligible for forgiveness. The Covered Period includes up to 24 weeks from the date of the loan disbursement for borrowers to use the funds for payroll and other eligible costs.

## Eligible Expenses

- Payroll Costs (see next slide)
- Utilities expenses associated with service agreements in place prior to February 15, 2020 for electricity, gas, water, transportation, fuel, phone and internet access
- Rent associated with leases that took effect prior to February 15, 2020
- Interest Expense
  - Mortgage loans existing prior to February 15, 2020
  - Debt on business personal property existing prior to February 15, 2020

## Forgiveness Limitations

- Payroll Costs must represent at least 60% of forgiveness amount requested
- No more than 40% of the forgiveness amount can be associated with non-payroll costs for utilities, rent and interest expense
- Safe Harbor provisions exist related to restoring pay or FTE level by December 31, 2020

# KEY PPP REQUIREMENTS – PAYROLL COSTS

## Payroll Costs

- Cash compensation, prior to taxes, paid to employees for wages, salary, bonuses, commissions, tips and other forms of cash compensation, *including housing stipends*
- Payments for medical, parental, family and sick leave payments
  - Excludes qualified sick and family leave wages for which a credit is allowed under Public Law 116–127
- Payments to employees for vacation time
- Payments for group health benefits costs and premiums
- Amounts paid into retirement plans by borrower
- Payment of state and local payroll taxes by borrower
- Payments of dismissal or separation allowances

## Payroll Cost Limitations

- Compensation paid to an employee in excess of an annual salary rate of \$100,000 must be excluded from the Payroll Costs amount. The maximum eligible payroll for an individual during a 24-week Covered Period is \$46,154 and during an 8-week period is \$15,385.
- Compensation paid to non-U.S. residents must be excluded from the Payroll Costs amount
- Payments to independent contractors are not includible in Payroll Costs

# UPDATED PPP LOAN FORGIVENESS APPLICATION FORM

## Overview of Updated Standard Application Form

- Require that at least 60% of the loan forgiveness is related to payroll costs (down from 75%)
- Allow up to 40% of the loan forgiveness to be related to nonpayroll costs (up from 25%)
- Expand the Safe Harbor provisions related to FTE reductions to avoid the proportional reduction of forgiveness amounts
- Lengthen the Safe Harbor time period for restoring FTE levels and pay rates to the earlier of 24 weeks after disbursement of the PPP loan or December 31, 2020.

We will cover completing this application in detail during the next webinar.

Paycheck Protection Program  
Loan Forgiveness Application Revised June 16, 2020  
OMB Control Number 3245-0407  
Expiration Date: 10/31/2020

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 60% Requirement (divide line 1 by 0.60): \_\_\_\_\_

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

SBA Form 3508 (06/20)  
Page 1

# LOAN FORGIVENESS APPLICATION FORM 3508EZ

## Overview of the “EZ” Application Form

A simplified, 1-page application (Form 3508EZ) which borrowers may choose to use if they meet certain requirements related to type of business or changes to FTE or employee compensation.

If you believe you may qualify for using the Form 3508EZ, we encourage you to review the application, requirements and certification with your advisors.

We will cover completing this application in detail during the next webinar.

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

# CRITERIA FOR USE OF EZ APPLICATION FORM

	Condition 1	AND Condition 2
Option 1	The Borrower is a <b>self-employed individual, independent contractor, or sole proprietor</b> ;	Had <b>no employees</b> at the time of the PPP loan application and did not include any employee salaries in the computation of average monthly payroll in the Borrower Application Form (SBA Form 2483).
Option 2	The Borrower <b>did not reduce annual salary or hourly wages</b> of any employee (who made \$100,000 or less in 2019) <b>by more than 25 percent</b> during the Covered Period or the Alternative Payroll Covered Period (as defined below) compared to the period between January 1, 2020 and March 31, 2020;	The Borrower <b>did not reduce the number of employees or the average paid hours</b> of employees between January 1, 2020 and the end of the Covered Period. (Subject to the Safe Harbor provisions for inability to rehire)
Option 3	The Borrower <b>did not reduce annual salary or hourly wages</b> of any employee (who made \$100,000 or less in 2019) <b>by more than 25 percent</b> during the Covered Period or the Alternative Payroll Covered Period (as defined) compared to the period between January 1, 2020 and March 31, 2020.	The Borrower was <b>unable to operate during the Covered Period at the same level of business activity</b> as before February 15, 2020, <b>due to compliance with requirements established or guidance issued</b> between March 1, 2020 and December 31, 2020 by the <b>Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration</b> , related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.



# KEY PPP FORGIVENESS REQUIREMENTS - FTE

- The requirements for determination of the forgiveness amount encourage borrowers to maintain levels of employment.
  - Forgiveness is proportionally reduced by reductions in average full-time equivalent employees (FTE).
- Forgiveness amount is adjusted by the FTE Reduction Quotient, which is the ratio of Covered Period FTE compared to a base reference period FTE
- Reference period is same period used in PPP Loan Application of:
  - February 15, 2019 and June 30, 2019; or
  - January 1, 2020 and February 29, 2020; or
  - Also, in the case of a seasonal employer, any consecutive twelve-week period between May 1, 2019 and September 15, 2019
- If the ratio is greater than one, the borrower has maintained headcount and met this requirement.
- If the ratio is less than one, forgivable expenses will be reduced proportionately.

# KEY PPP FORGIVENESS REQUIREMENTS – FTE (CONTINUED)

- An opportunity to correct for reductions in the number of employees may be applied if employees laid off during the period from 2/15/20 to 4/26/20 are rehired no later than 12/31/20.
- Borrowers will also not be penalized for employees they offer to rehire, but the employee declines the offer.
  - The offer and decline must be documented.
- Forgiveness will also not be affected by a reduction in employees if the borrower is able to document its inability:
  - to hire similarly qualified employees or
  - to return to the same level of business activity as it was operating at before February 15, 2020, due to compliance with COVID-19 requirements.

# KEY PPP FORGIVENESS REQUIREMENTS – PAY REDUCTIONS

- The requirements for determination of the forgiveness amount encourage borrowers to maintain pay levels.
  - The amount of forgiveness is decreased based on reductions in pay rates for individual employees, other than employees making more than \$100,000 annually
- The threshold for reductions of compensation is 25% of the employee's pay rate during the first quarter of 2020.
- Forgiveness will be decreased to the extent an individual employee's compensation for the Covered Period is reduced by more than the threshold.
- Borrowers have until 12/31/20 to reinstate all wages to pre-pandemic levels required for full forgiveness.

# REMAINING PPP LOAN BALANCES

- Any balance of a PPP loan not forgiven must be repaid by borrower.
- Repayment of the remaining balance is over at least 5 years.
- Interest rate is 1%.
  - Interest accrues from date of disbursement.
- Payments begin on the date at which the forgiveness amount is remitted to the lender,
  - or no later than 10 months after the end of the borrower's Covered Period.
- Any pre-existing loans (before the implementation of the Paycheck Protection Flexibility Act) may be amended from the current 2 year maturity to reflect the new 5 year maturity if both the lender and borrower mutually agree.

# SBA DISCLOSURE

The SBA announced they will release data showing which businesses received the Paycheck Protection Program loans.

- Data will include the names and other information about recipients who received loans of more than \$150,000
- Borrower information will include the business name, address, NAICS code, zip code, business type, demographic data, non-profit information, jobs supported, and the loan amount range.
- Specific dollar amounts will not be disclosed
- Borrowers who received less than \$150,000 in PPP funds will not be disclosed

# Hypothetical Examples



# HYPOTHETICAL EXAMPLE #1 – 8 WEEK COVERED PERIOD

## Situation

Assume an organization has four U.S. resident employees, three of whom have an annual salary of \$52,000 (\$1,000 per week for each employee), and one of whom has an annual salary of \$156,000 (\$3,000 per week). Assume related benefits costs included in payroll costs amount to \$1,500 in aggregate per week for the employees. The organization received their PPP loan on April 1, 2020. They have elected to keep their **8-week Covered Period**. Their Covered Period concluded on May 27, 2020.

Amount	Description
→ \$48,000	Eight weeks of salary for the four employees
→ - \$8,615	Less employee salary in excess of \$100,000 annually ( $\$156,000 - \$100,000 = \$56,000$ divided by 52 times 8 weeks)
→ = \$39,385	Subtotal for eligible compensation
→ + \$12,000	Eight weeks of benefits costs
→ = <b>\$51,385</b>	<b>Payroll costs eligible for forgiveness</b>
→ + \$34,256	Other costs eligible for forgiveness, limited to 40% of total forgiveness amount (utilities, rent, interest expense)
→ = <b>\$85,641</b>	<b>Calculated Forgiveness amount</b>
→ \$68,513	PPP loan amount ( $\$312,000$ salary less $\$56,000$ excess plus $\$72,862$ benefits costs = $\$328,862$ divided by 12 months times 2.5)

# HYPOTHETICAL EXAMPLE #2 - 24 WEEK COVERED PERIOD

## Situation

Assume an organization has four U.S. resident employees, three of whom have an annual salary of \$52,000 (\$1,000 per week for each employee), and one of whom has an annual salary of \$156,000 (\$3,000 per week). Assume related benefits costs included in payroll costs amount to \$1,500 in aggregate per week for the employees. The organization received their PPP loan on April 3, 2020. Assume the organization was unable to operate and pay employees until July 6, 2020. They have elected to extend their Covered Period up to **24 weeks**, which now ends on September 18, 2020.

Amount	Description
\$66,000	11 weeks of salary for the four employees
-\$11,846	Less employee salary in excess of \$100,000 annually (\$156,000 - \$100,000 = \$56,000 divided by 52 times 11 weeks)
=\$54,154	Subtotal for eligible compensation
+\$16,500	24 weeks of benefits costs
<b>=\$70,654</b>	<b>Payroll costs eligible for forgiveness</b>
+\$47,103	Other costs eligible for forgiveness, limited to 40% of total forgiveness amount (utilities, rent, interest expense)
<b>=\$117,757</b>	<b>Calculated Forgiveness Amount</b>
\$68,513	PPP loan amount ((\$312,000 salary less \$56,000 excess plus \$72,862 benefits costs = \$328,862 divided by 12 months times 2.5)



# HYPOTHETICAL EXAMPLE #3 – HOURLY REDUCTION

## Situation

An organization has three employees. In the past, each employee has worked 40 hours per week, but the owner decided to reduce hours to save on payroll costs. Each employee worked an average of 30 hours per week during the Covered Period. Wage rates remained the same at \$25 hourly. The organization received their PPP loan on April 15, 2020. They have elected to keep their 8-week Covered Period. Their Covered Period concluded on June 10, 2020.

Table 1 from the PPP Schedule A

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
Employee 1		\$6,000	30/40 = 0.75	0
Employee 2		\$6,000	30/40 = 0.75	0
Employee 3		\$6,000	30/40 = 0.75	0
<b>FTE Reduction Exceptions:</b>				
<b>Totals:</b>		<b>Box 1</b> \$18,000	<b>Box 2</b> 2.25	<b>Box 3</b> 0

# HYPOTHETICAL EXAMPLE #3 – HOURLY REDUCTION CONTINUED

Amount	Description – No Hourly Reduction
\$24,000	Eight weeks of wages for the three employees
\$12,000	Eight weeks of benefits costs
<b>\$36,000</b>	<b>Payroll costs eligible for forgiveness</b>
\$24,000	Non-payroll costs eligible for forgiveness (40% of total)
<b>\$60,000</b>	<b>Total costs eligible for forgiveness</b>
(\$0)	Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3)
\$60,000	Net costs eligible for forgiveness
1.0	FTE Reduction Quotient (Average FTE During the Covered Period/Average FTE During Reference Period)
<b>\$60,000</b>	<b>Total Calculated Forgiveness Amount</b> equal to net costs eligible for forgiveness times FTE Reduction Quotient

Amount	Description – Hourly Reduction of 10 hours per Employee
⇒ \$18,000	Eight weeks of wages for the three employees
\$12,000	Eight weeks of benefits costs
⇒ <b>\$30,000</b>	<b>Payroll costs eligible for forgiveness</b>
⇒ \$20,000	Non-payroll costs eligible for forgiveness (40% of total)
⇒ <b>\$50,000</b>	<b>Total costs eligible for forgiveness</b>
(\$0)	Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3)
⇒ \$50,000	Net costs eligible for forgiveness
⇒ 0.75	FTE Reduction Quotient (Average FTE During the Covered Period/Average FTE During Reference Period)
⇒ <b>\$37,500</b>	<b>Total Calculated Forgiveness Amount</b> equal to net costs eligible for forgiveness times FTE Reduction Quotient

**The maximum forgiveness amount was reduced by \$22,500** because the employer reduced the amount of hours paid to each employee during the Covered Period. Borrower should consider whether they can use the Safe Harbor provisions.

# HYPOTHETICAL EXAMPLE #4 - WAGE REDUCTION

**Situation**

An organization has three employees. In the past, each employee has earned \$1,000 per week, which is \$25 per hour, but the owner decided to reduce wages to \$700 per week, which is \$17.50 per hour, to save on payroll costs. The organization received their PPP loan on Wednesday, April 15, 2020. They have elected a 24-week Covered Period. Because their normal payroll cycle has weekly payroll paid on each Friday, for ease of recordkeeping the organization elected to use an Alternative Payroll Covered Period beginning on Saturday, April 18, 2020. Their Alternative Payroll Covered Period concluded on October 9, 2020.

Amount	Individual Salary / Hourly Wage Reduction
⇒ \$25.00	Wage rate during first quarter of 2020
⇒ \$18.75	75% threshold for pay rate
⇒ \$17.50	Average pay rate during Covered Period
⇒ \$1.25	Reduction in pay rate beyond threshold
⇒ 40	Average weekly hours paid during <b>first quarter</b>
⇒ \$50.00	Weekly pay reduction beyond threshold
⇒ \$1,200	<b>24 week total pay reduction beyond threshold</b>

**Table 1 from the PPP Schedule A**

**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
Employee 1		⇒ \$16,800	⇒ 40/40 = 1.0	⇒ \$1,200
Employee 2		\$16,800	40/40 = 1.0	\$1,200
Employee 3		\$16,800	40/40 = 1.0	\$1,200
<b>FTE Reduction Exceptions:</b>				
<b>Totals:</b>		<b>Box 1</b> \$50,400	<b>Box 2</b> 3.0	<b>Box 3</b> \$3,600

# HYPOTHETICAL EXAMPLE #4 – WAGE REDUCTION CONTINUED

Amount	Description – No Wage Reduction
⇒ \$72,000	Twenty-four weeks of wages for the three employees
\$36,000	Twenty-four weeks of benefits costs
<b>\$108,000</b>	<b>Payroll costs eligible for forgiveness</b>
\$72,000	Non-payroll costs eligible for forgiveness (40% of total)
<b>\$180,000</b>	<b>Total costs eligible for forgiveness</b>
(\$0)	Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3)
\$180,000	Net costs eligible for forgiveness
1.0	FTE Reduction Quotient (Average FTE During the Covered Period/Average FTE During Reference Period)
<b>\$180,000</b>	<b>Total calculated forgiveness amount</b> equal to net costs eligible for forgiveness times FTE Reduction Quotient

Amount	Description – Wage Reduction of 30%
⇒ \$50,400	Twenty-four weeks of wages for the three employees
\$36,000	Twenty-four weeks of benefits costs
⇒ <b>\$86,400</b>	<b>Payroll costs eligible for forgiveness</b>
⇒ \$57,600	Non-payroll costs eligible for forgiveness (40% of total)
⇒ <b>\$144,000</b>	<b>Total costs eligible for forgiveness</b>
⇒ (\$3,600)	Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3)
⇒ \$140,400	Net costs eligible for forgiveness
1.00	FTE Reduction Quotient (Average FTE During the Covered Period/Average FTE During Reference Period)
⇒ <b>\$140,400</b>	<b>Total calculated forgiveness amount</b> equal to net costs eligible for forgiveness times FTE Reduction Quotient

The maximum forgiveness amount was reduced by \$39,600 because the employer reduced the amount of wage rates paid to each employee during the Covered Period.

# HYPOTHETICAL EXAMPLE #5 – FTE REDUCTION

## Situation

Assume an organization has four U.S. resident employees, three of whom had annual salary of \$52,000 and one of whom had an annual salary of \$100,000. Assume two employees were let go and the remaining two employees had their pay rate reduced by 30%. Assume related benefits costs included in payroll costs were cut in half to \$750 per week. The organization received their PPP loan on June 1, 2020. They have elected to extend their Covered Period to 24 weeks, ending on

Amount	Description
\$49,108	24 weeks of salary for the two employees (one at \$36,400 and one at \$70,000)
+\$18,000	24 weeks of benefits costs
<b>=\$67,108</b>	<b>Payroll costs eligible for forgiveness</b>
+\$44,378	Other nonpayroll costs eligible for forgiveness, limited to 40% of total forgiveness amount
=\$111,846	Subtotal for preliminary forgiveness amount
-\$3,508	Deduction for salary reduction ( $\$152,000 \times 25\% = \$38,000$ . $\$152,000 \times 30\% = \$45,600$ $\$45,600 - \$38,000 = \$7,600$ divided by 52 times 24 = \$3,508)
\$108,338	Preliminary Calculated Amount
0.50	FTE Reduction Quotient (2.0 FTE in Covered Period divided by 4.0 FTE in base period)
<b>= \$54,169</b>	<b>Calculated Forgiveness Amount</b>
\$68,513	PPP loan amount ( $\$256,000$ salary plus $\$72,862$ benefits costs = $\$328,862$ divided by 12 months times 2.5)

# HYPOTHETICAL EXAMPLE #6 – SEASONAL EMPLOYER

## Situation

A store received their PPP loan funds on June 5, 2020. Since their loan was issued after June 2, their Covered Period will last 24-weeks. The Covered Period will conclude on November 20, 2020. The store is a summer-oriented business and normally opens the last week in May and closes after the first weekend in September (Memorial Day through Labor Day). How will their FTE be evaluated when they submit their forgiveness application?

## Response

This borrower is **considered a seasonal employer**. Seasonal employers have the option to use an alternative reference period against which their number of FTE during the Covered Period or Alternative Payroll Covered Period will be compared. This alternative reference period may be **any consecutive 12-week period** between May 1, 2019 and September 15, 2019. In this example, the seasonal employer chooses June 8, 2019 through August 31, 2019 which will give a reasonable representation of their seasonal employment and will limit any skewing of their FTE levels when forgiveness is considered, given all other factors remain constant.

# Documentation Requirements



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# KEY PPP FORGIVENESS REQUIREMENTS - OVERVIEW

## Certification

Certification from an authorized representative of the borrower that the documentation provided by the organization is true and in good faith

## Payroll Documentation

- IRS payroll tax filings
- Payroll and unemployment insurance filings for your state verifying the number of employees on payroll during the Covered Period or Alternative Payroll Covered Period
- Documentation supporting health insurance, retirement contributions and other employee benefits included under payroll costs

## Non-Payroll Documentation

- Documentation that verifies the amount used to cover utility, rent, and interest expense



# REQUIRED DOCUMENTATION – FORMS AND SCHEDULES

## Documents that Borrower must submit with its PPP Loan Forgiveness Application

- PPP Loan Forgiveness Application
  - ✓ Representation and certification from an authorized representative of the borrower that the documentation provided by the organization is true and in good faith (included in the Loan Forgiveness Application)
- PPP Loan Forgiveness Calculation Form
- PPP Schedule A

# REQUIRED DOCUMENTATION – PAYROLL COSTS

## Documents that Borrower must submit with its PPP Loan Forgiveness Application

- Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period of the Alternative Payroll Covered Period consisting of each of the following:
  - ✓ Bank account statements documenting the amount of cash compensation paid to employees
  - ✓ Third-party payroll service provider reports
  - ✓ Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period including:
    - Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941)
    - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state
  - ✓ Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount (PPP Schedule A, lines (6) and (7)).

# REQUIRED DOCUMENTATION – VERIFICATION OF FTEs

## Documents that Borrower must submit with its PPP Loan Forgiveness Application

- Documentation showing (at the election of the Borrower):
  - ✓ The average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019
  - ✓ The average number of FTE employees on payroll per month employed by the Borrower between January 1, 2020 and February 29, 2020; or
  - ✓ In the case of a seasonal employer, the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve-week period between May 1, 2019 and September 15, 2019
- The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11.
- Documents may include payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941) and state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state. Documents submitted may cover periods longer than the specified time period.

# REQUIRED DOCUMENTATION – PERMITTED NON-PAYROLL COSTS

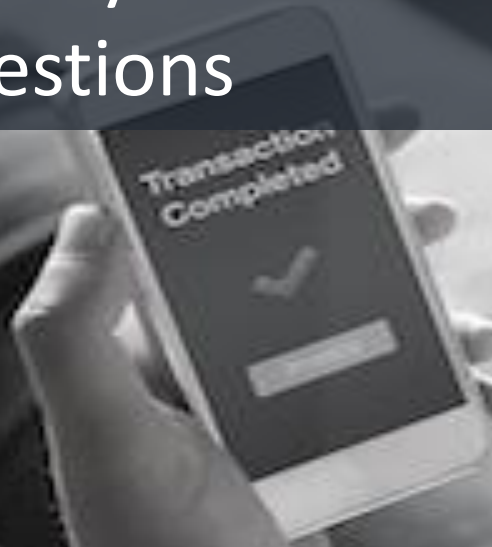
## Documents that Borrower must submit with its PPP Loan Forgiveness Application

- Documentation verifying the existence of the obligations/services prior to February 15, 2020 and eligible payments from the Covered Period
  - ✓ Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
  - ✓ Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
  - ✓ Business Utility Payments: Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments for electricity, gas, water, transportation, fuel and phone and internet access.

# REQUIRED DOCUMENTATION THAT BORROWERS ARE REQUIRED TO MAINTAIN FOR SIX YEARS BUT ARE NOT REQUIRED TO SUBMIT

- PPP Schedule A Worksheet or its equivalent and the following:
  - ✓ Documentation Supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
  - ✓ Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.
  - ✓ Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule.
  - ✓ Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor.”
- All records relating to the Borrower’s PPP loan application, including documentation
  - ✓ submitted with its PPP loan application
  - ✓ supporting the Borrower’s certifications as to the necessity of the loan request and its eligibility for a PPP loan
  - ✓ necessary to support the Borrower’s loan forgiveness application, and
  - ✓ demonstrating the Borrower’s material compliance with PPP requirements.
- The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

# Frequently Asked Questions



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# LIST OF FAQ TOPICS

- Forgiveness Application Timing
- Forgiveness Application Due Date
- Part-Time Employees
- Rehiring Employees
- Replacing Employees
- Unemployment Compensation
- Percentage of Loan used for Payroll Costs
- Taxable Income
- Salary Increases
- Shelter in Place

# FORGIVENESS APPLICATION TIMING

Are borrowers allowed to apply for forgiveness before the end of their Covered Period if they have already spent all of the original loan funds?

- Yes, just issued guidance indicates that applications for forgiveness can be submitted any time after all of the loan funds have been used for eligible purposes.



# FORGIVENESS APPLICATION DUE DATE

What is the due date for forgiveness applications?

- There is no due date for forgiveness applications.
- You may want to consider the following when deciding when to apply:
  - All documentation has been assembled to evidence the payroll and nonpayroll costs.
  - Loan payments begin 10 months after the end of your Covered Period.
  - Having PPP Loans forgiven prior to the end of 2020 will avoid having the loans reflected on your year end financial statements.

# PART-TIME EMPLOYEES

How are part time employees factored into the staffing requirements and forgiveness calculation?

- Part-time employees are included in the calculation of Full Time Equivalent employees (FTE) on a pro rata basis.
  - For each employee, the average number of hours paid per week is divided by 40, and rounded to the nearest tenth. For example, a part-time employee working 32 hours per week would represent 0.8 FTE.
    - The maximum for each employee is capped at 1.0, even if they work more than 40 hours per week.
  - A simplified method may also be used which assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer than 40 hours per week.
- Payroll costs associated with part-time employees are included in payroll costs for PPP loan forgiveness calculations.

# REHIRING EMPLOYEES

Will employers receive a reduction in loan forgiveness if they do not rehire employees that were laid off until the end of the Covered Period or Alternative Payroll Covered Period?

- Yes, unless the laid off employees are brought back to work by December 31, 2020, in which case the borrower's FTE will not be considered to have been reduced and the loan forgiveness will not be affected.
- If borrower attempts to rehire an employee but they decline to return to work, the FTE level can be adjusted so as to not reduce the forgiveness amount, provided the borrower can document the offer made to the employee and the employee's decline.

# REPLACING EMPLOYEES

Are businesses allowed to replace employees that left the business with new employees in order to meet the forgiveness requirements?

- Yes. The relevant calculation is the average amount of FTE during the Covered Period or Alternative Payroll Covered Period compared to the base reference period.

# UNEMPLOYMENT COMPENSATION

Can employees receive payroll and unemployment compensation?

- PPP guidance does not address this issue specifically.
- It is responsibility of the employee, not the employer, to assure that they are not paid wages and unemployment compensation for the same hours.
- In terms of the employer getting PPP Loan forgiveness, the only test for the employer is did they distribute the funds for payroll.

# PERCENTAGE OF LOAN USED FOR PAYROLL COSTS

Can employers use 100% of the loan for payroll?

- Yes. Current guidance requires at least 60% of PPP Loan proceeds to be used towards qualifying payroll costs. Borrowers may spend more than 60% of loan proceeds on payroll costs if they choose.
- However, if less than 60% of the loan proceeds are used on payroll costs, than less than the full PPP loan amount will be forgiven.

# TAXABLE INCOME

Is the loan taxable income?

- To the extent the PPP loan proceeds are used for eligible payroll and nonpayroll costs incurred and paid during the Covered Period or Alternative Payroll Covered Period, the loan amount is excluded from gross income by statute.
- It should be noted that any eligible expenses incurred associated with the PPP Loan amount are also not deductible for tax purposes.

# SALARY INCREASES

Are businesses allowed to increase salaries over the Covered Period or Alternative Payroll Covered Period? How would an increase in pay impact forgiveness?

- Salaries may be increased by the borrower. Any increases in salaries paid would be included in payroll costs for purposes of the forgiveness determination, and could increase the amount of the loan forgiveness.
- It should be noted that compensation in excess of an annualized salary of \$100,000 paid to any individual employee during the Covered Period or Alternative Payroll Covered Period cannot be included in the forgiveness calculation.



# SHELTER IN PLACE

If a business has been forced to close due to “shelter in place” orders, are borrowers required to continue to pay employees even though they are unable to operate their business?

- Borrowers are not required to continue to pay employees. The borrower does have up to 24 weeks from the date of the loan disbursement to use the funds for payroll and other eligible costs.
- The Paycheck Protection Flexibility Act expands the Safe Harbor for rehiring employees allowing that forgiveness will not be affected by a reduction in employees if the borrower can document:
  - its inability to rehire individuals who were employees on February 15, 2020, or
  - its inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020, or
  - its inability to return to the same level of business activity as it was operating at before February 15, 2020, due to compliance with federal government Covid-19 safety requirements.

# Questions



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THANK YOU.