

PPP – FORGIVENESS APPLICATION PROCESS

WHAT YOU NEED TO KNOW BEFORE YOU APPLY FOR PPP FORGIVENESS...

POLITO EPPICH ASSOCIATES



Paul Polito, CPA



Don Eppich, CPA



Jessica Dorsett, CPA



Ryan Mincks, CPA



FLEXIBILITY ACT

- Expanded covered period to 24 weeks (if your loan was funded before June 5th, you can elect to use the original 8-week period)
- 75% payroll test is now a 60% test (not a cliff test)
- Additional FTE reduction exceptions:
 - Borrower unable to rehire individuals who were employees on February 15, 2020, and hire similarly qualified employees for unfilled positions by December 31, 2020; or
 - Borrower unable to return to the same level of business before February 15, 2020, due to compliance with sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19 imposed by specified federal agencies during the period beginning on March 1, 2020, and ending December 31, 2020
- 5 year repayment on new loans (and previous loans if both parties consent – need bank approval).
- Taxpayers may qualify for payroll tax deferral even if they've received PPP loan forgiveness.

FLEXIBILITY ACT CONTINUED...

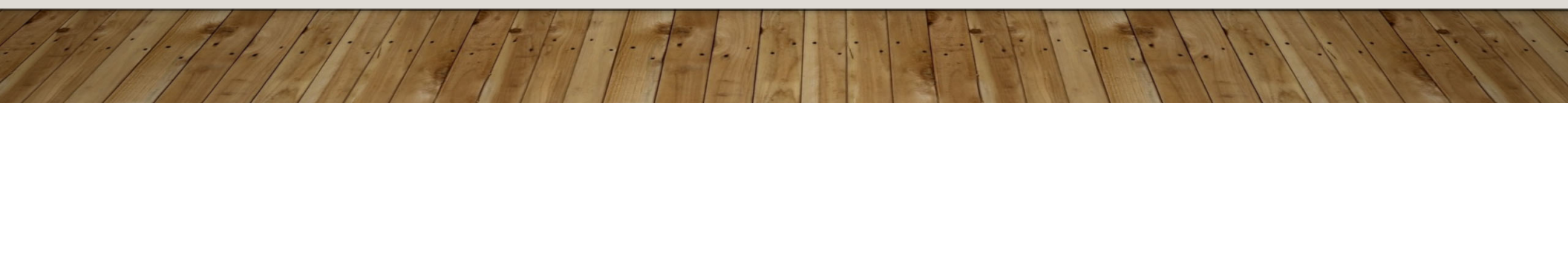
- Payment deferral
 - Was 6 months
 - Submit the loan forgiveness application within 10 months AFTER the end of your loan forgiveness covered period, then no payments due before the date on which SBA remits the loan forgiveness amount on your loan to your lender (or notifies your lender of no loan forgiveness)

NEW LOAN FORGIVENESS APPLICATION – FORM 3508EZ

Eligible users:

- Self-employed with no employees
- Employers that did NOT:
 - Reduce compensation for any sub \$100,000 employees* more than 25% during the covered period; AND
 - One of the following:
 - Reduce FTEs from 1/1/20 through the covered period; OR
 - Was unable to operate during the covered period at 2/15/20 levels due to COVID-19 restrictions issued by certain listed federal agencies

* Sub \$100,000 employee is any employee who did not receive more than \$100,000 annualized compensation during any pay period in 2019 (Weekly comp of \$1,923+, bi weekly of \$3,846+, semi monthly of \$4,167+, monthly of \$8,333+)



FORM 3805 EZ

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): _____

FORM 3508

<https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>

FORM 3805

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): _____

OWNER COMPENSATION

- Owner compensation is capped at \$20,833 or 2.5 mo equivalent of their applicable 2019 compensation, whichever is lower.
 - If electing 8 week covered period, this amount is capped at \$15,385 or 8-week equivalent of 2019 comp if lower.
 - Cap on owner compensation is across all businesses in total
- Health insurance benefits for self-employed individuals, general partners or owner-employees of S-corp owners are not included in allowable health insurance costs.
- Retirement benefits for self-employed individuals or general partners are not included in allowable retirement benefit costs (S-corp owners are ok)

FTE REDUCTION SAFE HARBORS

1. Unable to operate between 2/15/20 and the end of the covered period at the same level of business activity as before 2/15/20 due to compliance with requirements established or issued by certain listed agencies; OR
2. If FTEs were reduced between 2/15/20 and 4/26/20 and restored to 2/15/20 levels no later than 12/31/20 (was 6/30/20)

DOCUMENTATION REQUIRED!

WAGE REDUCTION SAFE HARBOR

1. If salary or hourly rate was reduce by 25% or more between 2/15/20 and 4/26/20 and restored to 2/15/20 levels no later than 12/31/20 (was 6/30/20)
2. Per employee test – applies to sub \$100k employees only

DOCUMENTATION REQUIRED!

DOCUMENTATION REQUIREMENTS – TO THE BANK

- For Payroll:
 - Payroll reports and tax returns documenting the amounts shown on the application. Make it as easy as you can for the bank reviewer to tie your documents to your application.
 - Bank statements documenting cancelled checks or debits to your account for payroll items. Again, make it easy for the reviewers to tie your numbers.
- For Non-Payroll:
 - Documentation proving that the obligation existed on February 15, 2020 (loan or lease agreement signed and dated).
 - Cancelled checks or account statements documenting the actual payment of the obligation within your covered period. Highlight, key or circle the items documenting your items on the bank statement.

DOCUMENTATION REQUIRED TO BE RETAINED (6-YEARS)


- Schedule A worksheet or its equivalent
- Proof of the employees who were paid over \$100,000 annualized on a single paycheck in 2019. Proof required for each employee put into the “over \$100,000 category.”
- For employees not rehired or replaced, documentation of job offers and refusals to resume work, reports documenting same to the EDD or other relevant agency.
- Documentation demonstrating the applicability of any safe harbor used to avoid forgiveness reduction.
- Most important!!!! documentation supporting the borrower’s certification as to the necessity of the loan request and its eligibility for a PPP loan.

7 ACTIONS BORROWERS NEED TO TAKE

1. Elections and considerations for the Borrower
2. Data Accumulation
3. Run preliminary calculations (we have a template for this)
4. Documents needed to submit to the Lender
5. Documents to maintain (but not submit to Lender)
6. Monitor and observe changes in the SBA guidance
7. Make sure your CPA knows you received the loan

TAX PLANNING CONSIDERATIONS

- The portion of the loan that is forgiven is not taxable income – great!
- CAUTION – the corresponding expenses paid with the forgiven debt are NOT deductible.
- What does this mean? They net to \$0, or in other words – remove that portion of expenses from your total expenses/budget.
- Example – Contractor receives \$200k in loan forgiveness. \$150k was for direct labor (i.e. revenue producing labor) and \$50k for operating labor and expenses. Contractor billed \$350k for that labor:

Revenue:	\$350,000		\$350,000
Direct labor:	<u>- 150,000</u>		<u>0</u>
Gross Profit:	200,000		350,000
Oper. Expenses:	<u>- 100,000</u>		<u>- 50,000</u>
Taxable Profit:	\$100,000		300,000

QUESTIONS?

Polito Eppich Associates LLP

<https://politoepich.com/covid19-resources>

760-599-9900

Paul Polito, CPA – pmp@politoepich.com

Jessica Dorsett, CPA – jmd@politoepich.com

Ryan Mincks, CPA – rdm@politoepich.com

ENDEAVOR BANK – CLIENT QUOTES

- “We were approved by SBA for our PPP loans today through Endeavor Bank. Thank you Paul. That tip right there paid for a couple hundred months of Vistage Dues.”
- “John, Thank you so much... greatly appreciated by everyone here at our firm. You and your team have gone to great lengths to help us.”
- “Impressive turn around”