

Payroll Protection Program – Forgiveness Application and Instructions

What we think it all means...

Welcome to the Accounting Services Group and Splaver & Splaver PPP Loan Forgiveness Presentation

- If you cannot hear the audio from the conference and connected using computer audio, please call in to the conference using one of the numbers on the meeting invitation
- You can download this presentation from our website <https://asgcpa.com/COVID-19-Update.php>

Caveat - Warning

This update provides an overview of a specific developing situation. This update is distributed with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns as the contents of the publication are intended for general informational purposes only.

Readers are urged not to act upon the information contained in this publication without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. This is because the Paycheck Protection Program Loan Forgiveness Application was just recently released and remains subject to further guidance from the SBA, Internal Revenue Service, Department of Labor and any other number of government agencies.

We've done our best to summarize this information without such guidance, and as such, the ultimate rules or interpretation thereof may differ. That would extend to any lending agency whose interpretation of the forgiveness provisions differ from ours.

Loan forgiveness, if any, is ultimately determined by your lending institution.

WHY ARE WE HERE

- March 27, 2020 – The Coronavirus Aid, Relief and Economic Securities (CARES) Act is signed into law.
- Created a new loan program under Section 7(a) of the Small Business Act (PPP loans).
- Congressional Intent: For PPP loans to be forgiven – Friday’s guidance provides some, but not all answers to the forgiveness computations

Note: the application and instructions are a work in progress as the SBA said that it will soon be issuing regulations and additional guidance to further assist borrowers as they complete their applications. The SBA also said that it will be providing lenders with additional guidance on their PPP responsibilities.

A Refresher - How Your Loan Amount Was Determined

You received the equivalent of 10 weeks of Payroll – but have just 8 weeks to use your loan amount

Qualified Payroll Costs used to determine Loan Amount

- **For Employers: 2.5x (10 weeks) Average Monthly**
The sum of payments of any compensation with respect to employees that is:
 - 1) Salary, wage, commission, tips, or similar compensation (not to exceed \$100k/ee)
 - 2) Payment for vacation, parental, family, medical, or sick leave, and severance
 - 3) Payment required for the provisions of group health care benefits, including insurance premiums
 - 4) Payment of any retirement benefits
 - 5) Payment of state or local tax assessed on the compensation of the employee (AZ SUI)

Qualified Payroll Costs used to determine Loan Forgiveness

A borrower is eligible for loan forgiveness equal to the amount spent on the following items during the **8-week** period beginning on the date of the origination of the loan

- Payroll costs (using the same definition of payroll costs used to determine loan eligibility)
- **Interest on the mortgage obligation incurred in the ordinary course of business**
- **Rent on a leasing agreement**
- **Payments on utilities (electricity, gas, water, transportation, telephone, or internet)**
- **For borrowers with tipped employees, additional wages paid to those employees**
- **No more than 25% can come from non-payroll costs**
- **The loan forgiveness cannot exceed the principal**

Income Tax Matters

- Generally – Cancellation of debt produces taxable income
- Cares Act specifically makes the forgiveness of the PPP loan tax-free
- IRS Jumps into the Fray – issuing the following regulation:
 - Expenses paid with dollars that are forgiven under the PPP will not be tax deductible on the taxpayer's 2020 income tax returns.
 - Has the effect of making the loan forgiveness, in part, taxable.
- Senate Bill – in process to unwind IRS regulation – time will tell, but we think unlikely

Income Taxes

VERY Simple Example of IRS Ruling:

	Taxable Income	
	Without IRS Interpretation	With IRS Interpretation
Gross Revenue	500,000	500,000
Deductible Expenses	<u>(400,000)</u>	<u>(400,000)</u>
Taxable Income	<u>100,000</u>	100,000
Expenses paid with PPP forgiven loan*		<u>85,000</u>
Taxable Income		<u>185,000</u>
* - Assuming \$85,000 forgiven PPP loan		

Observations & Take-Away's

- 1) Appears that forgiveness is limited to Principal, but not interest on the amount borrowed. We think that borrowers will be required to pay interest.
 - a) Refer to your promissory note for computation.
 - b) Big question remains – through what date?
 - a) Most likely will be through final adjudication of forgiveness by your lending institution. Waiting for guidance on this.
- 2) The 8 week period starts with the day funds are disbursed by your lending institution. No flexibility on this as of now. Will Congress help?
- 3) Forgiveness of owners compensation limited to the lower of (1) 8 week equivalent of 2019 compensation (2019 wages x 8/52) or (2) \$15,385.
 - The lack of any such language as it relates to other employees suggests that a bonus is acceptable to be paid to other employees.
 - Will be interesting to see if further (limiting) guidance is released on this.
 - Cap of \$100,000 in annual salary limits forgivable wages during the forgiveness period to \$15,385 per employee - 8/52 of \$100,000 (not \$16,666 - 2/12 of \$100,000).
- 5) For Self-Employed (Schedule C and Partners in Partnerships) – Forgiveness is 8/52 of 2019 Schedule C Income or Partner's self-employment income.
- 6) Eligible non-payroll costs cannot exceed 25% of loan amount.

New – Confusion – Guidance Needed

1. Owner Health Insurance – “Owner” is not defined and may or may not include S corporation owners.
 - **May be** that health and/or retirement benefits **for S corp. owners** will not qualify for forgiveness.
2. Retirement Benefits – No guidance on period
 - Can I make a 2019 contribution and does it count, or
 - Is it limited to 2020 only
 - Sole Proprietors and Partners will not be eligible to make contributions
3. No forgiveness for health care for Sole Proprietors or Partners
4. No guidance on related party rentals – we, therefore, assume permitted
5. Non-Payroll Cost → Transportation: Most commentators believe this is intended to be fuel. We await guidance.

Representations and Certifications

- The dollar amount for which forgiveness is requested:
 - 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 all applicable reductions due to decreases in the number of full-time equivalent employees and salary/hourly wage reductions;
 - does not include nonpayroll costs in excess of 25% of the amount requested; and
 - **does not exceed eight 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.
- 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.

Should I Have Taken A PPP- FAQ #46?

FAQ #46

Question: How will SBA review borrowers' required good-faith certification concerning the necessity of their loan request?

- *Answer: When submitting a PPP application, all borrowers must certify in good faith that "[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." SBA, in consultation with the Department of the Treasury, has determined that the following safe harbor will apply to SBA's review of PPP loans with respect to this issue: **Any borrower that, together with its affiliates, received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.***
- *SBA has determined that this safe harbor is appropriate because borrowers with loans below this threshold are generally less likely to have had access to adequate sources of liquidity in the current economic environment than borrowers that obtained larger loans. This safe harbor will also promote economic certainty as PPP borrowers with more limited resources endeavor to retain and rehire employees. In addition, given the large volume of PPP loans, this approach will enable SBA to conserve its finite audit resources and focus its reviews on larger loans, where the compliance effort may yield higher returns.*
- *Importantly, borrowers with loans greater than \$2 million that do not satisfy this safe harbor may still have an adequate basis for making the required good-faith certification, based on their individual circumstances in light of the language of the certification and SBA guidance. SBA has previously stated that all PPP loans in excess of \$2 million, and other PPP loans as appropriate, will be subject to review by SBA for compliance with program requirements set forth in the PPP Interim Final Rules and in the Borrower Application Form. If SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request, SBA will seek repayment of the outstanding PPP loan balance and will inform the lender that the borrower is not eligible for loan forgiveness. If the borrower repays the loan after receiving notification from SBA, SBA will not pursue administrative enforcement or referrals to other agencies based on its determination with respect to the certification concerning necessity of the loan request. SBA's determination concerning the certification regarding the necessity of the loan request will not affect SBA's loan guarantee.*

Key Definitions

Covered Period: Is generally **the 8-week period beginning on the date you received the loan disbursement.** Only the costs paid OR incurred within the 8-week period are generally eligible for forgiveness.

You have some flexibility - certain costs are eligible for forgiveness even though they were incurred before the covered period but paid during the period, while other costs may be eligible for forgiveness even though they were incurred during the covered period but paid after the period.

“Paid and incurred” - treatment of payroll costs: Payroll costs are paid on the day the paychecks are distributed or the borrower originates an ACH credit transaction.

Therefore, we think (but are not certain) that you could receive PPP loans on April 26 and immediately pay - as part of your regular payroll process - wages that had been earned by the employees for the previous two weeks, and include the amounts in the forgiveness calculation because the amounts had been paid within the covered period.

Key Definitions, Continued

Covered Period, continued

Payroll costs are incurred on the day they are earned.

The instructions provide flexibility by allowing the payroll costs incurred for your last pay period of the 8-week period to be eligible for forgiveness as long as they are paid no later than the next regular payroll date.

Alternative Payroll Covered Period

You may choose an Alternative Payroll Covered Period which is the 56 day period (8 weeks) beginning on the first day of the first pay period following the date funds are received.

For example, if you received your PPP loan on April 16, 2020, and the first day of your next pay period is April 21, 2020, you may elect to count the payroll costs - and only the payroll costs - for the 8-week period beginning April 21, 2020, instead of the 8-week period beginning April 16, 2020.

Example

ABC Inc. applied for and received a Payroll Protection Loan. The loan proceeds were deposited into the Company's bank account on Thursday May 14, 2020. ABC's first pay period following receipt of the loan funds begins on Monday May 18, 2020.

If ABC elects to use the Alternative Payroll Covered Period:

- The **Alternative Payroll Covered Period will run from Monday, May 18, 2020 until Sunday July 12, 2020**. This time period will be used to measure payroll costs incurred and paid for loan forgiveness.
- The **Covered Period for all other expenses will run from Thursday, May 14 until Wednesday, July 8, 2020**. Thus, the other expenses must be incurred and paid during that time period.

Non-Payroll Cost Example: (May only use Covered Period)

ABC is billed by SRP for electricity on a calendar month basis. ABC pays for utilities promptly on the first day of a month for electricity used in the prior month. The electrical utility costs that count as a cost that could support forgiveness related to non-payroll expenses are:

- The entire amounts paid on June 1 and July 1 for electricity used in May and June. Both are paid during the Covered Period. Per the instructions, it does not appear that ABC will need to prorate the May electric bill to exclude electricity used before May 14, since the entire May utility charge was paid in the Covered Period.
- The portion of the invoice for July paid on August 1 that relates to electricity used from July 1, 2020 to July 8, 2020. While this invoice was not paid during the Covered Period, the portion of electricity costs covering July 1 to July 8 were incurred during the Covered Period and paid on the next regular billing date.

Key Definitions, Continued

Non-Payroll Costs:

1. Covered mortgage obligations: payments of interest (not including any prepayment or payment of principal) on any business mortgage obligation on real or personal property incurred before February 15, 2020 (“business mortgage interest payments”);
2. Covered rent obligations: business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020 (“business rent or lease payments”); and
3. Covered utility payments: business payments for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020 (“business utility payments”).

Eligible nonpayroll costs cannot exceed 25% of the total forgiveness amount. (You can count nonpayroll costs that were both paid and incurred only once).

For non-payroll costs these expenses must either be:

- 1) paid during the 8-week covered period, or
- 2) incurred during the 8-week period, and paid by its next regular due date, even if that due date is outside the 8-week period.
- 3) **The Alternative Payroll Covered Period is not allowed for these expenses**

Key Definitions, Continued

Full Time Equivalent Employee (FTE) – 2 options

- Average number of hours paid per week divided by 40 (cannot exceed 1); or
- 1 for employees who work 40 hours or more per week and .5 for employees who work fewer than 40 hours.

More on this later

The Application



Paycheck Protection Program
Loan Forgiveness Application

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 75% Requirement (divide line 1 by 0.75): _____

Forgiveness Amount

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

- You may submit your application at any time.
- The bank has 60 days to evaluate the submission.
- If you reduced head count or compensation (salary or pay rates) you may want to wait until after June 30, 2020 to submit. (We'll tell you why later)

The Application



**Paycheck Protection Program
 Loan Forgiveness Application**

OMB Control Number 3245-0407
 Expiration Date: 10/31/2020

PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____

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 and enter 0 on line
 3.

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2: _____

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2: _____

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: _____

Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans: _____

Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee
 compensation: _____

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.

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): _____

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: _____

Line 12. Total Average FTE (add lines 2 and 5): _____

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met: _____

The Application



**Paycheck Protection Program
 Loan Forgiveness Application**

OMB Control Number 3245-0407
 Expiration Date: 10/31/2020

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
FTE Reduction Exceptions:				
Totals:		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
Totals:		Box 4	Box 5

Table 1 – For employees (during the covered period or alternative covered period) with annual compensation less than or equal to \$100,000 for all pay periods in 2019 or who started in 2020.

Table 2 – For employees (during the covered period or alternative covered period) who received annualized compensation in excess of \$100,000 or worked any portion of the covered period or alternative covered period. Not subject to salary reduction.

The Application – Key Observations

- If your business experienced NO reduction in annualized wage or hourly pay rates, AND NO reduction in FTE's, the application is fairly straight forward. You'll be fine.
 - If your business experienced just reduction in FTE, the application is challenging, but you can do it!
 - If you reduced annualized wage, the application is VERY complicated.**
- **Unless...you have compensation/hourly rate reduction(s) but restored those prior amounts in the payroll that covers June 30, 2020. If you do this, then no reduction in the forgivable amount of covered compensation (maybe still for FTE's)

Your Lending Institution is the ultimate arbiter of your forgiveness amount.

The Application – Important Safe Harbors

Compensation Restoration:

If you reduced annualized compensation or pay rates, your potential reduction of forgivable compensation is eliminated so long as in the pay period that covers June 30, 2020, employee annualized compensation and/or pay rate has been restored to the compensation/pay rate that was in place on February 15, 2020.

The Application – Important Safe Harbors

FTE Reduction Safe Harbor

A safe harbor under applicable law and regulation exempts certain borrowers from the loan forgiveness reduction based on FTE employee levels. Specifically, the Borrower is exempt from the reduction in loan forgiveness based on FTE employees described above if both of the following conditions are met:

- (1) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and
- (2) 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.

The Application – Important Safe Harbors

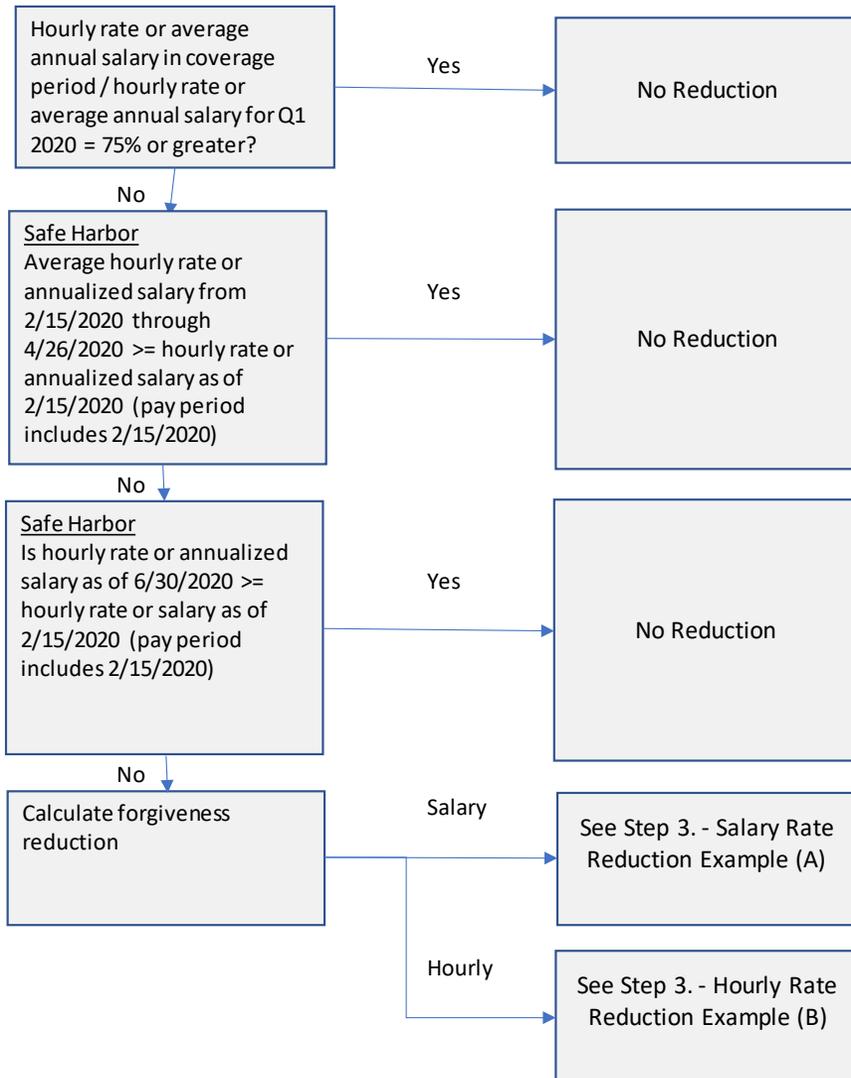
If you must compute reduction due to decline in FTE we also have FTE Reduction Exceptions:

- (1) any positions for which the Borrower made a good-faith, written offer to rehire an employee during the Covered Period or the Alternative Payroll Covered Period which was rejected by the employee; and
- (2) any employees who during the Covered Period or the Alternative Payroll Covered Period
 - (a) were fired for cause,
 - (b) voluntarily resigned, or
 - (c) voluntarily requested and received a reduction of their hours.

No reduction in FTE total for employees that meet the above criteria.

Salary/Hourly Wage Reduction – A Decision Tree/Flow Chart

Reduction Calculation - Done For Each Employee



Step 3. Salary Reduction Example (A)

Average Annualized Salary Q1 2020	\$ 90,000
	<u>75%</u>
Maximum Salary Reduction Allowed	\$ 67,500
Annualized Salary Coverage Period	<u>\$ 60,000</u>
Annualized Reduction \$	\$ 7,500
Multiply by 8/52 weeks	<u>15.38% =(8/52)</u>
Salary Reduction	<u><u>\$ 1,154</u></u>

Step 3. Hourly Rate Reduction Example (B)

75% of Q-1 Average pay rate	\$ 13.50
CP or ACP Average pay rate	<u>\$ 13.00</u>
Difference	<u>\$ 0.50</u>
Average hours worked Q-1	40
Pay Rate Difference	<u>\$ 0.50</u>
	20
Multiply by 8	<u>8</u>
Salary Reduction	<u><u>160</u></u>

Salary/Hourly Wage Reduction – The Meat of the Computation

SALARY REDUCTION COMPUTATIONS ARE REQUIRED FOR EACH AND EVERY EMPLOYEE IN TABLE 1 (employees with < \$100,000 2019 annualized compensation)

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.

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.

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: _____.
- b) Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020: _____.
- c) Divide the value entered in 1.a. by 1.b.: _____. (**If > .75 then you are GREAT – Stop here**)

If 1.c. is 0.75 or more, enter zero in the column above box 3 for that employee; otherwise proceed to Step 2. (box 3 is the salary/hourly wage reduction column)

From this point forward:

CP = Covered Period

ACP = Alternative Payroll Covered Period

Salary/Hourly Wage Reduction – The Meat of the Computation

Step 1 Example:

Carlos Santana was employed by ABC, Inc. on 1/1/20. For Q-1 2020 Carlos earned \$22,500; during the 8 week CP or ACP he earned \$10,000. Elton John also works at ABC, Inc. However, because he's on his final tour he is paid hourly. They are paid twice per month.

Carlos Santana		Actual	Computed	
		8 Weeks	Annualized	
Salary during 8 week CP or ACP	\$	10,000.00	\$ 60,000.00	= \$10,000/4*24
			Computed	
		Actual	Annualized	
Q-1 2020	\$	22,500.00	\$ 90,000.00	= \$20,000/6*24
				6 payrolls in Q-1; 24 in full year
1.a) Avg annual salary CP or ACP	\$	60,000.00		
1.b) Avg annual salary Q-1	\$	90,000.00		66.7% > 75% --> no wage reduction
				< 75% then go to Step 2
Elton John		Compensation	Hours Worked	Rate Per Hour
Wages Paid during 8 week CP or ACP	\$	5,120.00	320	\$ 16.00
During Q-1 2020	\$	8,640.00	480	\$ 18.00
Average rate during 8 weeks CP or ACP	\$	16.00		
Average rate Q-1 2020	\$	18.00		88.9% > 75% --> no wage reduction
				< 75% then go to Step 2

Salary/Hourly Wage Reduction – The Meat of the Computation

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: _____.
- b) Enter the average annual salary or hourly wage between February 15, 2020 and April 26, 2020: _____.
 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: _____.

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. (June 30 Salary or Pay Rate Restoration Safe Harbor)

Step 2 Example: Continuing with example in Step 1, Carlos Santana was earning \$90,000 annually coming into 2020. However, in March 2020 his annualized compensation was reduced to \$60,000.

a) Annual salary or hourly wage as of February, 15, 2020:	\$	90,000
b) Average annual salary or hourly wage between 2/15/20 and 4/26/20:	\$	75,000
Is 2.b. greater than 2.a.?		
Is \$75,000 > \$90,000	No - got to 2.c.	
If yes, go to Step 3.		
c) Average annual salary or hourly wage as of 6/30/20:	\$	80,000
If 2.c. (annual salary at 6/30/20) is equal or greater than 2.a. (annual wage or hourly rate at February 15, 2020) then Safe Harbor is met; otherwise go to Step 3		
Is \$80,000 > \$90,000	No - go to Step 3.	
No - Go to Step 3		
Yes - Safe Harbor Met - No wage reduction.		
Since 2/15/20 to 4/26/20 pay is less than that at 2/15/20 AND salary was not restored by 6/30/20 we go to Step 3.		

Salary/Hourly Wage Reduction – The Meat of the Computation

Step 3. Determine the Salary/Hourly Wage Reduction.

- a) Multiply the amount entered in 1.b. by 0.75: _____. (Average annual salary or hourly wage between 1/1/20 and 3/31/20 x .75)
- b) Subtract the amount entered in 1.a. from 3.a.: _____. (Average annual salary or hourly wage during Covered Period or ACP minus 3a)

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: _____. This is your hourly wage reduction. Enter in Box 3.

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: _____. Divide this amount by 52: _____. Enter this value in the column above box 3 for that employee.

Safe-Harbor:

- Notwithstanding anything else reducing payroll reduction forgiveness, SBA will ignore a reduction in salary or pay rate during the covered period compared to Q-1 2020 as long as that salary/pay rate is restored to what it was on 2/15/20 by June 30, 2020.

Salary/Hourly Wage Reduction – The Meat of the Computation

Step 3. Determine the Salary/Hourly Wage Reduction.

- a) Multiply the amount entered in 1.b. by 0.75: _____. (Average annual salary or hourly wage between 1/1/20 and 3/31/20 x .75)
- b) Subtract the amount entered in 1.a. from 3.a.: _____. (Average annual salary or hourly wage during Covered Period or ACP minus 3a)

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: _____. Divide this amount by 52: _____. Enter this value in the column above box 3 for that employee.

Step 3 Example: Since Carlos is on salary, we skip stems 3.c) and 3.d)

3.a)	Amount from 1.b) (Q-1 annualized salary)	\$	90,000	x	0.75	=	\$	67,500
3.b)	Subtract 1.a. (Avg. salary during CP or ACP) from 3.a							
	3.a. (75% of Q-1 compensation)	\$	67,500					
	1.a. (annualized salary during coverage period)	\$	(60,000)					
	=3.b.	\$	7,500					

Since Carlos is on salary the reduction that exceeds 25% is computed as follows:

3.e.	Amount in 3.b.	\$	7,500					
	Multiplied by 8		8					
		\$	60,000					
	Divide by 52		52					
	Salary Reduction	\$	1,154					

Salary/Hourly Wage Reduction – The Meat of the Computation

Step 3. Determine the Salary/Hourly Wage Reduction.

- a) Multiply the amount entered in 1.b. by 0.75: _____. (Average annual salary or hourly wage between 1/1/20 and 3/31/20 x .75)
- b) Subtract the amount entered in 1.a. from 3.a.: _____. (Average annual salary or hourly wage during Covered Period or ACP minus 3a)

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: _____. This is your hourly wage reduction. Enter in Box 3.

Step 3 Example – Hourly Employee :Let’s assume that instead of meeting the safe harbor in Step 1, Elton had forgotten a word to a song (not likely) and his rate per hour had been reduced to \$13/hr.

	"Elton missed a word" Example:	Revised Assumptions			Original Example		
		Compensation	Hours Worked	Rate Per Hour	Compensation	Hours Worked	Rate Per Hour
1.a.	Wages Paid during 8 week CP or ACP	\$ 4,160	320	\$ 13.00	\$ 5,120	320	\$ 16.00
1.b.	During Q-1 2020	\$ 8,640	480	\$ 18.00	\$ 8,640	480	\$ 18.00
3.a.	Multiply 1.b by .75	\$ 18.00	0.75	\$ 13.50			
3.a	75% of Q-1 Average rate	\$ 13.50					
	1.a. CP or ACP Average rate	\$ 13.00					
	3.b. result	\$ 0.50					
3.c.	Avg. hours worked during Q-1		40=480/12 weeks				
3.d.	3.c. result		40				
	3.b. result	\$ 0.50					
			20				
	Multiplied by 8		8				
	Salary Reduction to Box 3		160				

Salary/Hourly Wage Reduction – The Meat of the Computation

Summary of Salary Reduction Steps:

- Step 1 – Determine the annualized salary for each employee during the covered period. Ignore any employee whose annual compensation for any pay period in 2019 was greater than \$100,000 (bonus amounts are likely not annualized).
- Step 2 – Determine the average annual salary during the period January 1, 2020 to March 31, 2020.
- Step 3 – Divide Step 1 by Step 2.
- Step 4 – If this number is greater than 75%, then you are done and there is no reduction for this employee.
- Step 5 – If this number is less than 75%, then a reduction may be required. But now we have to determine if you meet a safe harbor.
- Step 6 – Enter the average annual salary as of February 15, 2020.
- Step 7 – Enter the average annual salary between February 15, 2020 and April 26, 2020
- Step 8 – If Step 7 is greater than Step 6, you do not meet the safe harbor and go to Step 10. If Step 7 is less than Step 6, go to Step 9.
- Step 9 – Determine the average annual salary as of June 30, 2020. If this amount is greater than Step 6, the safe harbor has been met. There is no reduction for that employee.
- Step 10 – Multiply Step 2 by 75%.
- Step 11 – Subtract Step 1 from Step 10.
- Step 12 – Multiply Step 11 by 8 and divide by 52. This is your reduction amount for that employee.

FTE Reductions

Your forgiveness may be reduced if your average FTEs during the Covered Period is less than the average number of FTEs for any of the following periods, at your election:

- The period beginning on February 15, 2019 and ending on June 30, 2019, or
- The period beginning on January 1, 2020 and ending on February 29, 2020, or
- For a seasonal employer, as determined by the SBA, either of the two previous periods or any 12-week period between May 1, 2019 and September 15, 2019.

Any employee working at least 40 hours is counted as 1 FTE. Other employees are determined to be a fraction of 1 based on average weekly hours divided by 40 hours or you can elect to treat them as .5 FTE. Here is an example:

Divided By	$\frac{\text{Avg FTE during coverage period}}{\text{Avg FTE from 1/01/2020 to 2/29/2020}}$		
Or			
Divided By	$\frac{\text{Avg FTE during coverage period}}{\text{Avg FTE from 2/25/2019 to 6/30/2019}}$		

FTE Reductions

Susan employs the following employees during the covered period:

- James, a salaried worker, equals 1 FTE.
- Mary, a salaried worker, equals 1 FTE.
- Ben, an hourly worker averages 10 hours per week, equals .25 FTE.
- Brittany, an hourly worker averages 20 hours per week, equals .5 FTE.

Her calculation of FTE is 2.75 based on actual hours. She can qualify for 3 FTE if she elects the optional method which likely would be to her benefit in most cases.

Let's assume that during the periods listed above that she had 4.5 FTEs and her calculated forgiveness was \$80,000 (she spent at least 75% of the loan amount on payroll costs).

We first need to determine the FTEs for two other periods:

- The period from February 15, 2020 through April 26, 2020, and
- For the pay period that includes February 15, 2020.

If the average FTEs for the first period is less than the second period, Susan must compare her FTEs on February 15, 2020 to her FTEs on June 30, 2020. If the June 30, 2020 FTEs are greater than the February 15, 2020 FTEs, the safe harbor is met and no reduction in forgiveness is required.

For our example, let's assume that Susan does not meet the safe harbor. In this case, $3 / 4.5$ FTEs is 66.67% times \$80,000 equals \$53,333 of final forgiveness or a reduction of \$26,667.

Many thanks to the Firm I stole this example from (proper credit given). Plagiarism is the highest form of flattery ☺.

WHAT DOCUMENTATION DO YOU NEED TO SUBMIT WITH YOUR FORGIVENESS APPLICATION?

PPP SCHEDULE A PAYROLL

- ❖ Third-party payroll service provider reports or bank statements to document cash compensation paid to employees.
 - ❖ Have your payroll reports ready.
- ❖ Tax Forms
 - ❖ Payroll tax filings reported or that will be reported to the IRS (example: Form 941).
 - ❖ State quarterly business and individual wage reporting and unemployment insurance tax filings reported or that will be reported to the state (example Arizona SUI Form UC-018).
- ❖ Payment receipts, cancelled checks or account statements documenting the amount of EMPLOYER contributions to employee health insurance and retirement plans.

The above should be provided for payments incurred or paid during the Covered Period or the Alternative Payroll Covered Period and included in the forgiveness amount on the PPP Schedule A. Note that the employees have to be listed individually so the documentation submitted must have that same detail.

PPP SCHEDULE A FULL-TIME EQUIVALENTS (FTE)

DOCUMENTATION SHOWING:

- ❖ The average number of FTE employees on payroll per month employed between February 15, 2019 and June 30, 2019.
- ❖ The average number of FTE employees on payroll per month employed between January 1, 2020 and February 29, 2020.
- ❖ In the case of a seasonal employer, the average number of FTE employees on payroll per month employed 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.

Note that the selected time period must be the same time period selected for purposes of completing PPP Schedule A, Line 11.

Documents can include the Tax Forms discussed on the previous slide.

Documents submitted may cover periods longer than the specific time period.

PPP SCHEDULE A NONPAYROLL ITEMS

Documentation verifying the existence of the obligation/services prior to February 15, 2020 and eligible payments from the Covered Period.

- ❖ Business Mortgage Interest: copy of lender amortization schedule and receipts or cancelled checks verifying payments from the Covered Period; or lender account statement from February 2020 and the months of the Covered Period verifying interest amounts and eligible payments.
- ❖ Business Rent or Lease Payments: copy of lease agreement and receipts or cancelled checks verifying payments from the Covered Period; or lessor account statement from February 2020 and the months of 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 these eligible payments.

DOCUMENTS YOU MUST MAINTAIN 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 PPP loan, including documentation submitted with its PPP loan application, documentation supporting the certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the loan forgiveness application, and documentation demonstrating material compliance with PPP requirements. You must retain all such documentation in your 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.

Closing

- Income Tax Returns – Thank you for your patience
- If you value the quality of service(s) we have provided, we would appreciate you taking a few minutes to complete a review of the Firm at our recently added Reviews page on our website.

<https://asgcpa.com/client-reviews.php>

<https://www.splavercpa.com/client-reviews.php>

- We wish you and your families the best of health and luck!
- Thank you for Participating