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thinking *forward* 

Paycheck Protection Program Loan Forgiveness

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Agenda

- Basic Forgiveness Rules
 - Allowable Costs
 - Accounting for Costs
- New Flexibility Rules
 - 8-Week vs. 24-Week Periods
 - 60% Payroll Cost vs. 75% Payroll Costs
- New Applications & Instructions (Released 6/16/2020)
 - Full Form vs. (not so) EZ Form
 - FTE and Salary Reduction Limits & Safe-Harbors
 - Documentation Requirements
- Q&A

Eligible Costs



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- Payroll Costs:
 - Limited to \$100k pace
 - \$15,385 for 8-wk period or \$46,154 for 24-wk period
 - Owner limits to \$100k or 2019 actual W-2. Max \$20,833 for 24-wk period.
 - Health Insurance, State PR Taxes (unemployment).
 - Employer Retirement Contributions
 - Employee contributions for 2019 or 2020.
 - Owner benefit limited to 2.5 months of 2019 contribution.

Eligible Costs

- Non-Payroll Costs:
 - Rent (Real and Personal Property)
 - Could include Vehicles and Equipment
 - Lease in place @ 2/15/2020
 - Related party lease should follow historical amounts @ 2/15/2020
 - Utilities (Gas, Electric, Water, Sewer, etc.)
 - Includes Telephone and Internet (perhaps online communications?)
 - Gas in Vehicles or Equipment
 - Mortgage Interest
 - Loan Interest on Building (if owned, not leased)
 - Includes loan interest on vehicles or equipment

Accounting for Expenses

“Amounts Paid or Incurred” means:

- Cash payments during the Covered Period
PLUS
- Amounts incurred (accrued) through the end of the Covered Period*

* Must be paid at the next normal pay-date or due-date



Accounting for Costs – Payroll Example

Assume 8-Week Loan Period: April 14 to June 8

1. Payroll Paid on April 15 (for 4/1 to 4/15)
2. Payroll Paid on April 30 (for 4/15 to 4/30)
3. Payroll Paid on May 15 (for 5/1 to 5/15)
4. Payroll Paid on May 31 (for 5/15 to 5/31)
5. Payroll Accrued through 6/8 (Paid 6/15)

*Results in almost 10-weeks of payroll costs.

**Same concept will apply for 24-week period.

New Flexibility Act



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Two Options for the Covered Period:

1. Original 8-Week Period (56 days)
2. New 24-Week Period (168 days)

Q: Why would someone choose the 8-week period?

A1: Perhaps fear of failing FTE tests later? (See Safe Harbor discussions later)

A2: The extended Covered Period allows forgiveness applications to get pushed into 2021. This might allow the debt forgiveness to be tax free after-all.



New Flexibility Act

Non-Payroll Cost Limitation:

1. Original 25% rule (75% Payroll Costs)
2. New 40% rule (60% Payroll Costs)

Example:

- Loan amount of \$100,000.
- Payroll Costs need to be at least \$60,000 or more to get full forgiveness. (old rule was \$75,000)
- Remaining amounts can be “Non-Payroll” Costs.

* In both cases, there's no limit if Payroll Costs make-up the entire loan amount.



New Forgiveness Forms

- New “Full Form” includes:
 - Calculations for FTE Reductions
 - Calculations for Salary/Wage Reductions
- New “EZ Form” allowed:
 - If you’ve calculated no FTE Reduction
 - If you’ve calculated no Salary/Wage Reductions

*In other words: Complete all the calculations on the Full Form and then determine if you’re eligible to use the EZ Form.



New Forgiveness Forms

FTE Safe Harbors (Pick one of these 3)

You are exempted from the FTE Calculations if:

1. No Reduction in FTE's between 1/1/2020 and end of the Covered Period.
2. *Unable to maintain operations at the same level as prior to 2/15/2020, due to requirements or guidance from HHS, CDC or OSHA.
3. Reduced FTE's during COVID shut-down, but then returned to 2/15/2020 FTE levels on or before 12/31/2020.

***Couldn't this be almost EVERY business in the United States?**



New Forgiveness Forms

Salary/Wage Reduction Safe Harbor

You are exempted from the Salary/Wage Reduction Calculations:

1. You never reduced any employee below 75% of their historical RATE of pay. (Reduction of hours doesn't matter)
2. Or, if you reduced Salary or Hourly Wage of an employee during COVID shut-down, but then returned them to January-February 2020 levels on or before 12/31/2020.

New Forgiveness Forms

Documentation submitted with applications (even the EZ form)

- All payroll reports, payroll tax filings, bank statements, copies of paychecks, ACH records and bank statements – to support the Payroll Costs.
- Copies of all checks and/or invoices for other Payroll and Non-Payroll costs (health insurance, retirement contributions, rent, utilities, interest expense, etc.)
- Documents showing the existence of non-payroll costs prior to 2/15/2020 (Provide copy of lease agreement, utility bill, loan document, etc.).

Not submitted with the application:

- Borrowers do not need to submit – but need to maintain detailed records for all FTE calculations and individual salary / wage records to support an audit by the SBA for up to 6-years after the forgiveness application. (We would recommend through 2027).

Q&A

Q: The original minimum amount for Payroll was 75% and now it is 60%. Would it affect the forgiveness if it exceeds 75%?

A: There is no limit on Payroll Costs, only Non-Payroll Costs. You can achieve 100% forgiveness with only Payroll Costs.

Q&A

Q: How should we be accounting for the loan and eligible expenses to keep our books correct before and after forgiveness?

A: At this point, your PPP loan should be reflected as a liability on the balance sheet. And, you should record all expenses normally.

Then, after your bank/SBA has approved the forgiveness amount, you can make a journal entry to reduce the loan and record debt-forgiveness income on the P&L.

Q&A

Q: If we received the loan post-June 5, can we elect to have an 8-week or 24-week covered period?

A: No. Loans made after June 5 must use a 24-week Covered Period.

Q&A

Q: Do we need to wait until the end of the 24-week period before we can apply for loan forgiveness? What if 100% of the loan is covered by the appropriate expenses within 12 weeks or less - can we apply for forgiveness early?

A: We don't know for sure at this point? But, nothing in the application says you CAN'T apply before the end of the 24-week covered period. And, it is possible to meet the FTE and Salary/Wage safe-harbor requirements before the Covered Period ends, since some of those safe-harbors reference the "date of the application", not the end of the Covered Period.

* HOWEVER, you may want to delay your forgiveness application into 2021 to allow the forgiveness to be tax-free.

Q&A

Q: We had to fire an employee for cause just prior to the covered period but replaced her by the end of the period. How this is reflected in the schedule A worksheet. Her wages show up in the wage reduction formula for Jan 1-Mar 31 period but not in the covered period of Apr 26-June 18 covered period.

A: The Salary/Wage Reduction worksheet is only used for employees that worked during the Covered Period AND during January – March. So, an employee that was terminated prior to the Covered Period won't be subject to the Salary/Wage Reduction calculations on the Schedule A worksheet.

Q&A

More Questions??

Use the Q&A Button on Zoom.

THANK YOU

Check out our website for more information, resources and tools:

<https://www.biggskofford.com/category/covid-19-resources/>