



**Hauser
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS
& TRUSTED ADVISORS

DECEMBER 2020 PPP FINALLY FORGIVENESS EMPLOYER EDITION

In this issue:

- What's New?
- When to Apply for Forgiveness
- Covered Period
- Forgiveness Application Forms
- Qualified Payroll and Other Costs
- Documentation Requirements
- Tax Impact

WE ARE HERE TO HELP!

At Hauser Jones & Sas PLLC, we have been tirelessly monitoring PPP loan forgiveness rules and limitations. Call us with your questions.

Contact Us:

425-889-1778 253-891-2940

admin@hauserjonesandsas.com

WHAT'S NEW?

NEW GUIDANCE AND DEVELOPMENTS

- ◆ Covered Period—There are two options: 8-week or a 24-week covered period.
- ◆ New Forms—There are now three forms to choose from—3508, 3508EZ, 3508S
- ◆ Qualified Costs—The amount of qualified costs depends on your selected covered period.
- ◆ Documentation—What documentation is required for loan forgiveness?
- ◆ Tax Impact—How will your PPP loan impact your 2020 tax return?
- ◆ EIDL and PPP Loan Interaction—If you received an EIDL advance, a portion of your PPP loan equivalent to the EIDL advance amount will not be forgiven and must be paid back.

WHEN TO APPLY FOR FORGIVENESS

To avoid having to make any PPP loan payments, you will need to apply for forgiveness within ten months of the end of your covered period.

Most financial institutions are now ready for loan recipients to apply for forgiveness. Financial institutions are still lobbying for SBA to issue automatic forgiveness for loans under \$150,000. However, we don't know if that will ever happen. We are not aware of any other reasons to delay filing your application for loan forgiveness, and we are available to help if you need it.

DO NOT submit your loan forgiveness application until you are ready and have all your questions answered.

Please give us a call or send us a message if you have any questions or if you would like us to assist with your loan forgiveness application process.



**Hauser
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS
& TRUSTED ADVISORS

DECEMBER 2020 PPP FINALLY FORGIVENESS EMPLOYER EDITION

COVERED PERIOD

Covered Period: The period of time you have to use your PPP loan funds to qualify for forgiveness. The covered period starts on the loan disbursement date and ends either 56 days later or 168 days later, depending on your selected covered period.

PPP funds used after the covered period will not qualify for forgiveness, even if used for qualified expenses.

Two Options: 8-Week Covered Period (56 Days)
24-Week Covered Period (168 Days)

NOTE: *Employers can have until 12/31/20 to restore their FTE count.*

An alternative payroll covered period is available for borrowers with a biweekly or more frequent payroll schedule. (See page 1 of loan forgiveness application.)

Although the rules state that expenses must be “paid and incurred” during the covered period, the loan forgiveness application gives some wiggle room by stating the following:

“An eligible nonpayroll cost must be paid during the covered period or incurred during the covered Period and paid on or before the next regular billing date.”

FORGIVENESS APPLICATION FORMS

There are now three forgiveness application forms:

- ◆ **Form 3508S**
 - ◆ Use for PPP loans of \$50,000 or less
 - ◆ FTE limitations do not apply!
 - ◆ Easiest form to complete—**best option if you qualify**
- ◆ **Form 3508EZ**
 - ◆ Use for self-employed individuals: sole proprietors with no employees and independent contractors (only use if you don't qualify for 3508S)
 - ◆ Use for employers who don't:
 - ◆ Reduce wages by more than 25%
 - ◆ Reduce number of employees
 - ◆ Reduce employee hours
- ◆ **Form 3508**
 - ◆ Use for all other loans



**Hauser
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS
& TRUSTED ADVISORS

DECEMBER 2020 PPP FINALLY FORGIVENESS EMPLOYER EDITION

QUALIFIED PAYROLL COSTS

Payroll Costs Include:

- ◆ Gross wages including:
 - ◇ Salaries & wages
 - ◇ Commissions
 - ◇ Cash tip or equivalent include in gross wages
 - ◇ Vacation pay included in gross wages
 - ◇ Parental, family, medical, or sick leave, if not used for tax credit
 - ◇ Allowance for dismissal or separation included in gross wages
- ◆ Provisions for group health care benefits, including insurance premiums
- ◆ Retirement benefits for group retirement plan
- ◆ State or local tax assessed on the compensation of the employees

Currently, there is no guidance that disallows paying a bonus to non-owner employees in the covered period.

Important: The maximum payroll for any one employee during the 24 weeks is **\$46,154**. This limitation does not include allowable payroll taxes, group health care costs and employer paid retirement benefits.

Not Eligible for Payroll Costs

- ◆ Compensation of any individual employee in excess of \$100k, as prorated for the covered period
- ◆ The maximum gross wages that can be forgiven in the 24-week period for employees is \$46,154
- ◆ Taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code
- ◆ Any compensation of an employee whose principal place of residence is outside of the US
- ◆ Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act
- ◆ Qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act

QUALIFIED OTHER COSTS

Qualified other costs (non-payroll Costs) include:

- ◆ Interest on mortgage obligations incurred in the ordinary course of business (principal excluded) with origination prior to February 15, 2020
- ◆ Rent and lease payments on written lease agreements for real property and personal property with terms that started prior to February 15, 2020
- ◆ Payments on business utilities for services that began prior to February 15, 2020:
 - ◇ Electricity, gas, water
 - ◇ Transportation (interpreted as fuel for business vehicles)
 - ◇ Telephone
 - ◇ Internet



**Hauser
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS
& TRUSTED ADVISORS

DECEMBER 2020 PPP FINALLY FORGIVENESS EMPLOYER EDITION

BREAKDOWN FOR USE OF FUNDS

Breakdown for Use of Funds (24 Week Covered Period):

60% of PPP funds must be used for payroll costs to qualify for forgiveness

40% of PPP funds can be used for other costs (outlined on page 1)

If PPP funds used for other qualified costs are greater than 40%, the portion over 40% will have to be paid back. This is not all or none - qualified costs can still be forgiven; only unqualified costs will have to be paid back.

Aside from the rule to spend 60% on qualified payroll costs and 40% on other specified business costs to obtain PPP loan forgiveness, there are two additional hoops to jump through for PPP loan forgiveness:

1. Head-Count Limitation (see page 4)
2. Wage Reduction Limitation (see page 5)

HEAD-COUNT LIMITATION

Individual salaries and wages must be maintained at a level of least 75% of the prior period. This will be measured by comparing pay per employee (only employees with wages under \$100k) for the current period to the base period as specified below.

Employers must maintain employee wages by at least 75% for:

1. The 24-week period from the loan origination date, or
2. By December 31, 2020

Base period to use for prior-period comparison:

Most recent full quarter prior to the PPP loan origination date:

- ◆ January 1 - March 31, 2020

Forgiveness Limitation Formula

If gross wages or the hourly rate for any employee is reduced by more than 25% compared to the base period, the reduction in excess of 25% may reduce your loan forgiveness amount.

Example:

If you paid Suzie \$50,000 in the prior quarter:

- ◆ If you pay Suzie the equivalent of \$37,500 (75% of \$50k) or more in the covered period, there are no consequences.
- ◆ If you pay Suzie less than \$37,500, the shortage may impact your loan forgiveness amount.

All PPP loan forgiveness interpretations subject to change based on future guidance.



**Hauser
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS
& TRUSTED ADVISORS

DECEMBER 2020 PPP FINALLY FORGIVENESS EMPLOYER EDITION

HEADCOUNT REDUCTION LIMITATION

If there's a reduction in staff, loan forgiveness will be reduced by the percentage reduction in FTE (full-time employees) over the 24-week period after the loan is received. This will be measured by dividing the current average monthly FTE count by the average monthly FTE for the base period:

Employers must maintain employee head-count levels for period ending:

1. The 24-week period from the loan origination date, **or**
2. By December 31, 2020

Base period to use for prior-period comparison, use lesser of:

1. February 15, 2019 – June 30, 2019, **or**
2. January 1, 2020 – February 29, 2020

Calculated as average full-time equivalent per month

Add up hours for part-time employees then divide by 40 and add to your full-time employee count to get your total FTE count (round up to the nearest 10th).

Example (**subject to change based on future guidance**):

If you had 10 full-time employees (over 40 hours) and 8 part-time employees each with 20 hours, your FTE would be: $10 + ((8 \times 20) / 40) = 10 + 4 = 14$ FTEs

Calculating Head-Count Reduction Percentage:

If you had 14 FTE in the current period and 14 FTE in the base period, there would not be a reduction in the forgivable loan amount.

If you had 10 FTE in the current period; but had 14 FTE in the base period, there would be a reduction in the forgiveness amount. ($10/14 = 71.4\%$ so only 71.4% would be forgiven).

(There are additional special provisions for seasonal businesses that are not addressed here.)

Head-Count Reduction Formula Safe-Harbor:

Some furloughed employees are opting to not accept the rehire opportunity as current state and federal unemployment payments might be deemed more attractive. In response to this situation, the SBA addressed the question of what happens to the employer's calculation if the employee refuses the offer. The response in FAQ 40, which was published May 3, 2020, is as follows:

"As an exercise of the Administrator's and the Secretary's authority under Section 1106(d)(6) of the CARES Act to prescribe regulations granting de-minimis exemptions from the Act's limits on loan forgiveness, SBA and Treasury intend to issue an interim final rule excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the CARES Act's loan forgiveness reduction calculation. The interim final rule will specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee's rejection of that offer must be documented by the borrower. Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation."

If you run into this situation, make sure that you have everything in writing - retain a copy of the offer letter and document offer details (offered same rate of pay and hours), date, method of correspondence and response from former employee.



**Hauser
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS
& TRUSTED ADVISORS

DECEMBER 2020 PPP FINALLY FORGIVENESS EMPLOYER EDITION

DOCUMENTATION REQUIREMENTS

Documentation Requirements for PPP Loan Forgiveness:

- ◆ Form 3508, Form 3508EZ or Form 3508S as applicable
- ◆ Documentation to verify eligible compensation for the covered period
 - ◆ Bank statements or third-party service provider payroll reports
 - ◆ 941 reports for periods included in covered period
 - ◆ State quarterly payroll tax reports for periods included in covered period
- ◆ Payment receipts, invoices, cancelled checks or account statements to document all other expenses claimed, including other payroll costs and non-payroll costs
- ◆ Documentation showing average number of FTE employees

TAX IMPACT

Expenses Paid for with PPP Funds are Currently NOT Deductible

Earlier this year, the IRS issued Revenue Ruling 2020-32 denying tax deductions for expenses paid for with PPP loan funds.

On November 18th 2020 the IRS issued Revenue Ruling 2020-27 stating that expenses paid for with PPP funds cannot be deducted on the 2020 tax return if there is a reasonable expectation of PPP loan forgiveness in a future year.

The AICPA and hundreds of organizations continue to lobby congress to reverse these rulings.

CONTACT YOUR CONGRESSMEN

The IRS guidance to disallow expenses goes against the original intention of the CARES Act which was that PPP loans should not result in taxable income. The IRS Revenue Rulings result in indirect taxation of your PPP funds.

We encourage you to reach out to your Congressmen to encourage them to quickly pass S. 3612 and H.R. 6821, the Small Business Expense Protection Acts of 2020, or H.R. 6754, the Protecting the Paycheck Protection Program Act.

Let us know if you would like a sample letter.

Hauser Jones & Sas

Bellevue Office

425-889-1778

10940 NE 33rd PI Suite 100

Bellevue, WA 98004

Puyallup Office

253-891-2940

208 N Meridian

Puyallup, WA 98371