



**Hauser
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS
& TRUSTED ADVISORS

DECEMBER 2020 PPP FINALLY FORGIVENESS SELF-EMPLOYED EDITION

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WE CAN HELP YOU!

At Hauser Jones & Sas, we have been tirelessly monitoring PPP loan forgiveness rules and limitations. Let us know if you have questions.

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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.



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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.*

IMPORTANT: *All self-employed individuals should automatically select the 24-week*

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



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QUALIFIED PAYROLL COSTS

Payroll costs for self-employed individuals who select the 24-week covered period are limited to the lesser of:

1. Maximum wage of \$100,000 prorated to 2.5 months = \$20,833 ($\$100k / 12 \times 2.5 = \$20,833$)
2. Amount reported on 2019 Schedule C Line 31 prorated to 2.5 months

Due to the above limitation, self-employed individuals cannot give themselves a raise during the covered period. They are bound by the amount reported on their 2019 Schedule C Line 31.

The **maximum** “payroll replacement” for any self-employed individual is **\$20,833**.

Why You Should Select the 24-Week Covered Period:

If you select the 8-week covered period instead of the 24-week covered period, the **maximum** “payroll replacement” for any self-employed individual would be limited to 8 weeks instead of 2.5 months. The maximum payroll would then be **\$15,385**.

For this reason, ALL self-employed individuals should select the 24-week covered period.

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

These costs will not be relevant for the majority of self-employed individuals.



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DOCUMENTATION REQUIREMENTS

The documentation requirement for “payroll replacement” for self-employed individuals is:

1. Form 3508S
2. Copy of your 2019 Schedule C.

Additional supporting documentation is not required unless you had employees.

If you did have employees, please refer to the “PPP Loan Forgiveness Employer Edition for additional documentation requirements.

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.

Note: “Payroll replacement” for self-employed individuals will not have a tax impact.

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.

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