



Hauser  
Jones & Sas

FINALLY, FORGIVENESS!!

BY ROGER A. JONES, CPA, CGMA

# CONTACT YOUR CONGRESSMEN

PASS S. 3612 AND H.R. 6821  
(CONTACT US FOR SAMPLE  
LETTER)



Hauser  
Jones & Sas

Keep Pushing Congress



# SBA CHANGE LOG

## Current PPP Forgiveness

1. [Period]	8 Weeks	➔	24 Weeks
2. [Payroll]	75%	➔	60%
3. [Payments]	6 months.	➔	Until SBA remittance
4. [FTE Cure]	6/30/2020	➔	12/31/2020
5. [Term]	24 Months	➔	60 Months
6. [Forgiveness]	at the End	➔	When <i>complete (i.e. now)</i>
7. [Form]	3508	➔	3508EZ or 3508S



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# SBA CHANGE LOG

## Current PPP Forgiveness

1. “Certify” Need
2. Non-taxable
3. EIDL “Grant”



New forms 3509/3510 (\$2mm)

**Taxable - now in 2020**

EIDL Advance – Pmnt. required



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# THANKSGIVING HOLIDAY “NEWS”

IRS Rev Ruling 2020-27 – Nondeductibility of PPP Expenses **AND Taxable in 2020**

The IRS cites Sec. 265(a)(1), which disallows a deduction for otherwise eligible expenses to the extent the payment of those eligible expenses is allocable to tax-exempt income in the form of reasonably expected covered loan forgiveness. The IRS says that “the fact that the tax-exempt income may not have been accrued or received by the end of the taxable year does not change this result” because the disallowance applies whether or not any amount of tax-exempt income in the form of covered loan forgiveness and to which the eligible expenses are allocable is received or accrued.”



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# THANKSGIVING HOLIDAY “NEWS”

## IRS Rev Ruling 2020-27 – Practical Effects

1. Accelerates the recognition of tax (maybe ok if tax rates go up in 2021 anyway)
2. May impact QBI deduction
  1. Income is not included in taxable income so lowers potential QBI amount
  2. Possibly excluded for determining “applicable W-2 wages” limitation
3. Creates timing and reporting Mismatches for year-end 2020 financial statements
  1. *Book to Tax* Mismatch and *Bank to Borrower* Mismatch
4. Timing for tax planning is compressed (issued during holidays)



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# CURRENT NEWS

IRS Rev Ruling 2020-27 – Practical Effects

**FOR SELF-EMPLOYED BORROWERS and PARTNERSHIPS**

- “Wage Replacement” amounts ARE NOT WAGES – THEREFORE NO IMPACT



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

## FAQ ON REV. RULING 2020-27

**Question 1: What if I just don't file for forgiveness until 2021? Will this still apply to me?**

**Answer:** Unfortunately, yes. If forgiveness of the loan is "reasonably expected to occur" the deductions must be limited in 2020. The IRS did provide for two exceptions (though neither are particularly helpful for the average PPP loan) – taxpayers who have their PPP loan application denied and taxpayers who irrevocably decide not to apply for forgiveness.

**Question 2: You said the legal basis for this latest IRS guidance is questionable. Do I have to follow it?**

**Answer:** You can opt out of this guidance but to do so you will have to disclose a position relying on a different legal argument. While this is possible it has significant risks as these types of disclosures send a large red flag to the IRS.



**Hauser  
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS



## FAQ ON REV. RULING 2020-27

### **Question 3: How do I know if I have a “reasonable expectation of forgiveness”?**

**Answer:** Unfortunately, the IRS guidance does not explain what would cause a taxpayer to have a “reasonable expectation” that their loan would be forgiven. For the time being, it’s safe to assume most PPP recipients have a reasonable expectation of forgiveness if they have spent the funds as directed by the PPP program and have applied or will apply for forgiveness.

### **Question 4: I have a PPP loan over \$2 million and I am going to have to file Form 3509, the Loan Necessity Questionnaire; do I have a reasonable expectation of forgiveness for the purpose of limited deductions?**

**Answer:** This is one of the few areas where there may be a likelihood of forgiveness but we’re not sure if it meets the “reasonable expectation” threshold (as we stated above that threshold is not defined). The requirement to fill out the 3509 may provide enough doubt that the threshold is not met.



**Hauser  
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# FINANCIAL REPORTING (GAAP) EFFECTS

## FINANCIAL REPORTING (GAAP)

Option 1: Follow FASB ASC 470 and account for the loan as “debt,” or

Option 2: Recognize a Gain Contingency, or

Option 3: Account for PPP as a government grant (not as a bank loan)



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# FINANCIAL REPORTING (GAAP) EFFECTS

## Recognize PPP Loan as Income in 2020 (GAAP and Tax)

1. Report PPP loan as income (instead of debt)
2. Recognize tax
3. Increase owners' equity
4. Make clear disclosures about your reasoning (i.e. which accounting guidance to follow)
5. Explain this to your lender



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# LOAN FORGIVENESS NEWS

## Recognize PPP Loan as Income in 2020 (GAAP and Tax)

1. Urgency for tax planning in 2020
2. R&D tax Credits



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# LOAN FORGIVENESS NEWS

## Loan Necessity Form 3509 (for loans over \$2,000,000)

Evaluation of borrowers “good faith” necessity certification at time of loan application

30,000 loans were over \$2mm (out of 5.2mm total loans)

- The forms are very “absolute” (note the 1,000-character comment box)
- Maintain your contemporaneous records
- Document your reasoning behind PPP application (during the pandemic’s early days)



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# LOAN FORGIVENESS NEWS

## Lenders are accepting forgiveness applications

### SBA CARES PPP Loan Program

We are not currently accepting new PPP loan applications.

If you have a Banner Bank PPP loan, we will contact you about how to apply for loan forgiveness when you are eligible to apply. Please contact your banker for additional information.

[PPP Loan Forgiveness FAQs from Banner Bank](#)

[PPP Loan Forgiveness FAQs from the SBA](#)

[PPP Loan FAQ: Change of Business Owner](#)



## Paycheck Protection Program (PPP) Organizer

---



**Hauser  
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

## Guide to Getting Organized for Loan Forgiveness

# LOAN FORGIVENESS TIPS

## Lenders are accepting forgiveness applications

- Look for lenders' notice for submission – usually involves an online portal
- Many portals allow you to choose a “delegate”
- Authorized signer must still hit “submit” button
- Look for an organizer to help you prepare
- Be aware of data file size limits (max 25MB)
- Prepare and review draft prior to submission
- You must sign the application!



**Hauser  
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS



Paycheck Protection Program (PPP) Organizer

**Guide to Getting Organized  
for Loan Forgiveness**

# LOAN FORGIVENESS TIPS

## News from the forgiveness front lines

1. EIDL loan/grant confusion
2. Payment coupon confusion
3. Lenders are processing the easier applications first
4. About 2% of submissions have been selected by SBA for audit (loans under \$2mm)
5. Lenders have various levels of “readiness”
6. Forgiveness documentation should be well organized and saved for 6 years



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS



# LOAN FORGIVENESS NEWS

## SBA 7(A) PAYMENT SUBSIDY (6 MONTHS Paid by SBA)

NOT TAXABLE!

SHOW AS "OTHER INCOME" (GRANT REVENUE)

NO BANKER/BORROWER MISMATCH



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

# KEY PPP DEFINITIONS

- **Covered loan** means a loan made under CARES Act Sec. 1102.
- **Covered period.**
  - Under **Sec. 1102** (PPP), the term **covered period** means the period beginning February 15, 2020 and ending on June 30, 2020. July 2020 legislation extended this to August 8th.
  - Under **Sec. 1106** (Loan Forgiveness), the term **covered period** means the 8-week period beginning on the date of the origination of a covered loan.
    - Subsequent SBA guidance clarified that the **covered period** begins on PPP loan disbursement date. For example, if the borrower received its PPP loan proceeds on Monday, April 20, the first day of the covered period is April 20.
    - Per the Paycheck Protection Program Flexibility Act of 2020 (H.R. 7010), the **covered period** of Sec. 1106 now ends on the earlier of 24-weeks after loan origination or December 31, 2020. However, borrowers with existing PPP loans (as of date of enactment) may elect to retain the 8-week covered period.

## KEY PPP DEFINITIONS (CONTINUED)

Term <i>payroll costs</i> includes:	Term <i>payroll costs</i> does NOT include:
Salary, wage, commission or similar compensation	Compensation of an individual employee in excess of an annual salary of \$100,000, as <b>prorated for the covered period</b> .  Maximum of $8/52 \times \$100,000 = \$15,385$ <b>or</b> $2.5/12 \times \$100,000 = \$20,833$ <b>or</b> $24/52 \times \$100,000 = \$46,154$ (non-owners only).
Payment of cash tip or equivalent	Any compensation of an employee whose principal residence is outside of the U.S.
Payment for vacation, parental, family, medical or sick leave	Qualified sick leave or family leave wages for which the FFCRA allowed employer tax credit(s).
Allowance for dismissal or separation	

\* SBA PPP FAQs (updated May 27, 2020) clarify that the \$100,000 does not include employee benefits of monetary value (e.g., employer contributions to defined benefit or defined contributions retirement plans or group health insurance care including insurance premiums).

## KEY PPP DEFINITIONS (CONTINUED)

Term <i>payroll costs</i> includes:	Term <i>payroll costs</i> does NOT include:
Payment required for the provision of group health care benefits, including insurance premiums	
Payment of any retirement benefit	
Payment of State or local tax assessed on the compensation of employees	Taxes imposed or withheld under chapters 21, 22 or 24* of the IRC of 1986
Sum of payments (income or net earnings from self-employment) to a sole proprietor or independent contractor	Any amount more than \$100,000, as prorated for the covered period

\* IRC chapters 21, 22 or 24 are FICA, RRTA, and Federal withholding tax, respectively.

## KEY PPP DEFINITIONS (CONTINUED)

- *Covered mortgage obligation* means any indebtedness or debt instrument incurred in the ordinary course of business that:
  1. Is a liability of the borrower;
  2. Is a mortgage on real or personal property, and
  3. Was incurred before February 15, 2020.
- *Covered rent obligation* means rent obligated under a leasing agreement in force before February 15, 2020.
  - See SBA guidance addressing rental arrangements between related parties at <https://home.treasury.gov/system/files/136/PPP-IFR-Treatment-Owners-Forgiveness-Certain-Nonpayroll-Costs.pdf>.

## KEY PPP DEFINITIONS (CONTINUED)

- *Covered utility payment* means payment for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020.
  - Note that per SBA FAQs, a service for the distribution of transportation refers to transportation utility fees assessed by state and local governments. Payment of these fees by the borrower is eligible for loan forgiveness.
  - See [https://www.fhwa.dot.gov/ipd/value\\_capture/defined/transportation\\_utility\\_fees.aspx](https://www.fhwa.dot.gov/ipd/value_capture/defined/transportation_utility_fees.aspx)
- We'll define expected forgiveness amount a bit later in the discussion...

# ALLOWABLE USES OF COVERED LOAN PROCEEDS

- An eligible recipient may use the covered loan proceeds for (per SBA Interim Final Rule dated April 15, 2020):

Allowable uses of covered loan proceeds
Payroll costs (including owner compensation replacement)
Costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave, and insurance premiums
Employer contributions to employee retirement plans
Mortgage interest payments (but not prepayments or principal payments)
Rent payments
Utility payments
Interest on any debt obligations incurred before February 15, 2020
Refinancing an EIDL loan made

# LOAN FORGIVENESS

- An eligible recipient shall be eligible for **forgiveness** of the covered loan in an amount equal to the **sum** of these costs incurred (or payments made) during the covered period:

**Payroll costs (as defined earlier)**

**Any payment on any covered rent obligation**



**Payment of interest (not principal) on any covered mortgage obligation**

**Any covered utility payment**



---

FORM 3508 **S** - LOANS OF \$50,000 OR LESS

FORM 3508 **EZ** - SE INDIVIDUALS, SOLE PROPS., INDEPENDENT CONTR.

USE FOR EMPLOYERS WHO DON'T:

1. REDUCE WAGES BY MORE THAN 25%
2. REDUCE NUMBER OF FTE (UNLESS SAFE HARBOR)
3. REDUCE EMPLOYEE HOURS

**Hauser  
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

FORM **3508** - USE FOR ALL OTHER LOANS

Wondering What Form to Select?

---

## SHORTCUTS

**\$20,833** = MAXIMUM PAYROLL REPLACEMENT FOR SE INDIVIDUALS (24 WKS)

**\$46,154** = MAXIMUM PAYROLL FOR ANY EMPLOYEE FOR 24 WEEKS

**60%** = PPP FUNDS MUST BE USED ON PAYROLL COSTS

**25%** = SAFE HARBOR: MUST RETURN WAGES TO 75% OF BASE BY 12/31/2020

**JOB OFFER LETTER** = FTE HEADCOUNT REDUCTION SAFE HARBOR

**Hauser  
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

## Loan Forgiveness (Continued)

- A loan forgiveness application was released May 22, 2020.
- A revised loan forgiveness application (**Form 3508**) was released June 16, 2020.
- The application currently has four components (all borrowers must submit at least #1 and #2 to their lender):
  1. PPP Loan Forgiveness Calculation Form;
  2. PPP Schedule A;
  3. PPP Schedule A worksheet, and
  4. An optional PPP Borrower Demographic Information Form (veteran/gender/race/ethnicity data is collected for program reporting purposes only and has no bearing on the loan forgiveness decision).

## Loan Forgiveness (Continued)

- PPP Loan Forgiveness Application **Form 3508EZ**:
  - Self-employed individual, independent contractor, or sole proprietor with no employees (i.e., borrower did not include employee salaries in the PPP loan application).
  - Borrower did not reduce annual salary (or hourly wages) of any Table 1 employee by more than 25% during the covered period (or the alternative payroll covered period) compared to the period between January 1, 2020 and March 31, 2020, and:
    - Did not reduce # FTEs or the average paid hours of employees between January 1, 2020 and the end of the covered period, or
    - Did make such reductions but satisfy one of several safe harbors (e.g., inability to rehire, employee refusal, or unable to operate at same level of business activity due to CDC, HHS or OSHA guidance).

## Loan Forgiveness (Continued)

- Payroll and nonpayroll costs.
  - Include total eligible payroll costs incurred or paid during either the *covered period* or the *alternative payroll covered period*. More on payroll costs in a bit...
- The Interim Final Rule #1 had indicated that **at least 75 percent** of the PPP loan proceeds must be used for payroll costs.
- The PPP Flexibility Act changed the threshold such that at least 60% of covered loan proceeds must be spent on payroll costs.

## Loan Forgiveness (Continued)

- **Payroll** and nonpayroll costs.
  - **Eligible payroll costs.** Borrowers are generally eligible for forgiveness for the payroll costs paid and payroll costs incurred during the 24-week (168-day) or 8-week (56-day) covered period (or alternative payroll covered period).
  - Payroll costs are considered **paid** on the day that paychecks are distributed, or the borrower originates an ACH credit transaction.
  - Payroll costs are considered **incurred** on the day that the employee's pay is earned.
  - Payroll costs **incurred but not paid** during the borrower's last pay period of the covered period (or alternative payroll covered period) are eligible for forgiveness if paid on or before the next regular payroll date.
  - Otherwise, payroll costs must be **paid** during the covered period (or alternative payroll covered period).

## Loan Forgiveness (Continued)

- Payroll and nonpayroll costs.
  - **Eligible payroll costs.** For each individual employee (or self-employed individual or general partner), the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000, as prorated for the covered period.
  - This will either be  $8/52 \times \$100,000 = \$15,385$  or  $2.5/12 \times \$100,000 = \$20,833$  or  $24/52 \times \$100,000 = \$46,154$  (non-owners only).
  - Count payroll costs that were both paid and incurred only once.
  - Include only payroll costs for employees whose principal place of residence is in the United States.

## Loan Forgiveness (Continued)

- Payroll and nonpayroll costs\*.
    - Amount of business mortgage interest payments paid or incurred during the covered period for any business mortgage obligation on real or personal property incurred before February 15, 2020. Do not include prepayments.
    - Amount of business rent or lease payments paid or incurred for real or personal property during the covered period, pursuant to lease agreements in force before February 15, 2020.
    - Amount of business utility payments (service for the distribution of electricity, gas, water, telephone, transportation, or internet access) paid or incurred during the covered period, for business utilities for which service began before February 15, 2020.
- \* Note that borrowers are NOT required to report payments that they do not want to include in the loan forgiveness amount.



## Loan Forgiveness (Continued)

- Payroll and nonpayroll costs (continued)
  - Any eligible nonpayroll costs must be paid during the covered period or incurred during the covered period and paid on or before the next regular billing cycle (even if the billing date is after the covered period).
  - **Example.** A borrower that received a loan before June 5, 2020 uses a 24-week covered period that begins on June 1 and ends on November 15. The borrower pays its electricity bills for June through October during the covered period and pays its November electricity bill on December 10, which is the next regular billing date. The borrower may seek loan forgiveness for its June through October electricity bills, because they were paid during the covered period. In addition, the borrower may seek loan forgiveness for the portion of its November electricity bill through November 15 (the end of the covered period), because it was incurred during the covered period and paid on the next regular billing date.

## Loan Forgiveness (Continued)

- For Table 1 employees only, a salary/hourly wage reduction calculation may be required when an employee's salary or hourly wages were reduced by **more than 25%** during the covered period or alternative payroll covered period as compared to the period of January 1, 2020 through March 31, 2020.
- **Steps 1 – 3** in the Instructions for PPP Schedule A Worksheet provide the salary/hourly wage reduction calculations.

## Loan Forgiveness (Continued)

- **Example.** A borrower is using a 24-week covered period. This borrower reduced a full-time employee's weekly salary from \$1,000 per week during the reference period to \$700 per week during the covered period.
- The employee continued to work on a full-time basis during the covered period, with an FTE of 1.0.
- In this case, the first \$250 (25 percent of \$1,000) is exempted from the loan forgiveness reduction.
- The borrower seeking forgiveness would list \$1,200 as the salary wage reduction for that employee (the extra \$50 weekly reduction multiplied by 24 weeks).
- If the borrower applies for **forgiveness before the end of the covered period**, it must account for the salary reduction for the **full** 24-week covered period (totaling \$1,200).

## Loan Forgiveness (Continued)

- **Example 2** - A borrower is using a 24-week covered period. This borrower reduced a full-time employee's hourly wage from \$20 per hour during the reference period to \$15 per hour during the covered period.
- The employee worked 10 hours per week during the covered period, with an FTE of 0.25
- Because the employee's hourly **wage was reduced by exactly 25%**, the wage reduction does not reduce the eligible forgiveness amount.
- The borrower would enter \$0 in the Salary/hourly waged reduction column for that employee on the PPP Schedule A worksheet, Table 1 box 3.

# Loan Forgiveness (Continued)

<b>FTE Reduction Exceptions</b>	1. Any positions for which the borrower made a good-faith, written offer to rehire an individual who was an employee on February 15, 2020 and the borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020;	Exempt from reduction
<b>Indicate the FTE of:</b>	2. Any positions for which the borrower made a good-faith, written offer to restore any reduction in hours, at the same salary or wages, during the covered period or the alternative covered period and the employee rejected the offer, and/or	
	3. Any employees who during the covered period or the alternative payroll covered period who: (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested and received a reduction of their hours.	

In all these cases, include these FTEs only if the position was not filled by a new employee.

# Loan Forgiveness (Continued)

	FTE HEADCOUNT BASE PERIOD OPTIONS	
<b>BASE PERIOD OPTION 1</b>	1. JANUARY 1, 2020 TO FEBRUARY 29, 2020	1 <sup>ST</sup> 2 MOS. 2020
<b>BASE PERIOD OPTION 2</b>	2. FEBRUARY 15, 2019 TO JUNE 30, 2019	4 ½ MOS OF 2019



## FTE REDUCTION

### Full-Time Equivalency (FTE) Reduction Calculation

If you satisfy **any** of the following three criteria, check the appropriate box, skip lines 11 and 12, and enter **1.0** on line 13; otherwise, complete lines 11, 12, and 13:

**No reduction in employees or average paid hours:** 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 .

**FTE Reduction Safe Harbor 1:** If you were unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19, check here .

**FTE Reduction Safe Harbor 2:** If you satisfy FTE Reduction Safe Harbor 2 (see PPP Schedule A Worksheet), check here .

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 any of the above criteria are met: \_\_\_\_\_

Exemptions

# Loan Forgiveness (Continued)

<b>FTE Reduction Safe Harbor 1</b>	Borrower, in good faith, is able to document that it was unable to operate between February 15, 2020, and the end of the covered period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.	Exempt from reduction
<b>FTE Reduction Safe Harbor 2</b>	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 December 31, 2020 to its FTE employee levels in the borrower's pay period that included February 15, 2020.	Exempt from reduction





# FTE REDUCTION

## Full-Time Equivalency (FTE) Reduction Calculation

If you satisfy **any** of the following three criteria, check the appropriate box, skip lines 11 and 12, and enter **1.0** on line 13; otherwise, complete lines 11, 12, and 13:

**No reduction in employees or average paid hours:** 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 .

**FTE Reduction Safe Harbor 1:** If you were unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19, check here .

**FTE Reduction Safe Harbor 2:** If you satisfy FTE Reduction Safe Harbor 2 (see PPP Schedule A Worksheet), check here .

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 any of the above criteria are met: \_\_\_\_\_

Exemptions

## Loan Forgiveness (Continued)

- There are caps on the amount of loan forgiveness available for **owner-employees** payroll compensation.
  - **C corporation** owner-employees are capped by the amount of their 2019 employee cash compensation **and** employer retirement **and** health insurance contributions made on their behalf.
  - **S corporation** owner-employees are capped by the amount of their 2019 employee cash compensation **and** employer retirement contributions made on their behalf, **but** for 2% S corporation shareholders, employer health insurance contributions made on their behalf cannot be separately added because those payments are already included in their employee cash compensation.
  - Guidance per SBA Interim Final Rule published June 26, 2020.

## Loan Forgiveness (Continued)

- There are caps on the amount of loan forgiveness available for **self-employed individuals'** own payroll compensation.
  - **Schedule C filers** are capped by the amount of their owner compensation replacement, calculated on 2019 net profit.
  - **General partners** are capped by the amount of amount of their 2019 net earnings from self-employment (reduced by claimed IRC Sec. 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235.
  - The amount of loan forgiveness requested for self-employed individuals' payroll compensation can be no more than the lesser of 8/52 of 2019 compensation or \$15,385 per individual in total across **all** businesses. For borrowers subject to the 24-week covered period, that amount rises to  $2.5/12 \times \$100,000$ , or \$20,833.
  - No additional forgiveness is provided for retirement or health insurance contributions for self-employed individuals, including Schedule C filers and general partners, as such expenses are paid out of their net self-employment income.

# LOAN FORGIVENESS AMOUNTS

Borrower	Covered Period – Payroll		Retirement	Health Insurance
< 5% owner-employee C corporation	8 weeks	\$15,385	YES – add to payroll	YES – add to payroll
	24 weeks	\$46,154		
=> 5% owner-employee C corporation	8 weeks	\$15,385	YES – add to payroll	YES – add to payroll
	24 weeks	\$20,833		
=< 2% S corporation owner-employee	8 weeks	\$15,385	YES – add to payroll	YES – add to payroll
	24 weeks	\$46,154		
> 2% but < 5% S corporation owner-employee	8 weeks	\$15,385	YES – add to payroll	N/A (Notice 2008-1)
	24 weeks	\$46,154		
=> 5% owner-employee S corporation	8 weeks	\$15,385	YES – add to payroll	N/A (Notice 2008-1)
	24 weeks	\$20,833		
Schedule C / F	8 weeks	\$15,385	NO	NO
	24 weeks	\$20,833		
Partner (member)	8 weeks	\$15,385	NO	NO
	24 weeks	\$20,833		
All other employees	8 weeks	\$15,385	YES – add to payroll	YES – add to payroll
	24 weeks	\$46,154		

## Loan Forgiveness (Continued)

- Under initial SBA guidance, payments of principal and interest on PPP loans were deferred for a period of six months from the date on which the PPP was disbursed.
- The [PPP Flexibility Act](#) extends the deferral period until the date the lender receives the applicable forgiven amount from the SBA.
  - The new legislation also clarifies that if a borrower **fails to apply** for forgiveness within 10 months after the end of the covered period, the deferral period for that loan will end on the date that is 10 months after the last day of the covered period.
  - For example, if a borrower's PPP loan is disbursed on June 25, 2020, the 24-week period ends on December 10, 2020. If the borrower does not submit a loan forgiveness application to its lender by October 10, 2021, the borrower must begin making payments on or after October 10, 2021.

## LENDER RESPONSIBILITIES



Hauser  
Jones & Sas

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

Lenders Must Confirm Receipt of the following:

1. Required borrower **certifications**.
2. Documentation sufficient to **verify costs** [Form 3508 and EZ or S]

Lenders Must:

1. Confirm borrowers' Form 3508 [or 3508EZ/S] **amounts match documentation**.
2. Test that all **calculations are correct** – especially Line 10 of Form 3508

“Good-faith Review”

60days to judgement

## Loan Forgiveness (Continued)

- **Loan Forgiveness Documentation** for Employers
  - Payroll tax reports – 2020 IRS forms 941, State income and unemployment tax returns
  - Compensation and FTE's:
    - Gross wages for each employee for
      - the covered period
      - Most recent full quarter before the covered period
    - State and local taxes assessed on employee compensation (SUTA)
    - The average no. of FTE's per month for the following:
      - During the covered period
      - Feb 15 through June 30, 2019
      - Jan 1 through Feb 29, 2020

## Loan Forgiveness (Continued)

- **Loan Forgiveness Documentation** for Employers
  - For seasonal businesses use Ave. no. FTE's per month during
    - ☐ Feb 15, 2019 through June 30, 2019
  - Group Health Care Benefits
    - Documentation showing total costs paid for all health care benefits under a group health plan.
      - ☐ Include all employees and company owners
      - ☐ Do not include employee withholdings for their portion
  - Retirement Plan Benefits
    - Documentation showing the sum of all retirement plan funding costs



# Loan Forgiveness (Continued)

- **Loan Forgiveness Documentation** for Employers
  - Include documentation such as:
    - Canceled checks
    - Receipts or invoices
    - Account statements
    - Bank statements

## Loan Forgiveness (Continued)

- **Loan Forgiveness Documentation** for Sole proprietors, independent contractors and SE
- The 2019 1040 Schedule C to verify net income (line 31) for owner income replacement calculation.
  - If employees – include documentation for payroll, healthcare, retirement etc. as above.
  - Include the same expense documentation as above.

# SBA MAINTAINS FINAL SAY

Lenders must submit to SBA:

**The amount of recommended forgiveness \$\$**

1. SBA form 3508 [or 3508EZ or S]
2. PPP Schedule A (if applicable) and
3. PPP Borrower Demographic Information Form (as applicable).



**Hauser  
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

**The amount unforgiven \$\$**

1. The reason for denial of any forgiveness

# CONTACT YOUR CONGRESSMEN

PASS S. 3612 AND H.R. 6821  
(CONTACT US FOR SAMPLE  
LETTER)



Hauser  
Jones & Sas

Keep Pushing Congress



**THE HJ&S TEAM IS HERE TO HELP!**



**Hauser  
Jones & Sas**

CERTIFIED PUBLIC ACCOUNTANTS  
& TRUSTED ADVISORS

[www.hauserjonesandsas.com](http://www.hauserjonesandsas.com)