Updated PPP Loan Forgiveness Rules and Loan Forgiveness Application Process

November 23, 2020
Webinar Goals

• Summarize PPP Loan Forgiveness Process

• Roundtable and Q&A discussion on PPP loan forgiveness and the CARES Act impact on nonprofits
DISCLAIMER:

✓ Our **BEST** understanding as of this moment in time

✓ Presenting guidance **NOT** legal or financial advice

✓ You should make all decisions after consulting your attorney and CPA.

✓ MNA staff are **NOT** lawyers or CPA’s
Agenda

- Summary of PPP Loan Forgiveness Rules
- Required Forgiveness Forms
- Required documentation
Presenters

Bob Weins, JD, CPA
Insights

Leon LaBrecque, JD, CPA, CFP, CFA
Sequoia Financial Group

Jamie Lopiccolo, CPA, CGMA
Capocore Professional Advisors
### PPP Loan Forgiveness Summary – Key Rule Changes

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Rule Change</th>
<th>Documentation Change</th>
<th>Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan of $50K or less</td>
<td>No forgiveness reductions for layoffs or wage cuts</td>
<td>No need to track or retain headcount or wage data audits</td>
<td>3508S</td>
</tr>
<tr>
<td>- No reduction in number of employees or average paid hours from Jan 1 though end of Covered Period;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Can’t operate at Feb 15th level due to COVID-19 rules from HHS, CDC or OSHA</td>
<td>Don’t submit FTE (headcount) and wage data with application</td>
<td>Retain FTE and wage data for possible audit</td>
<td>3508EZ</td>
</tr>
</tbody>
</table>

**Filing Due Date: 10-months after end of your Covered Period**
REMINDER: What costs qualify for forgiveness?

➢ Payroll Costs *(wages, health ins, retirement benefits ...)*

➢ Non-Payroll Costs*
  ➢ Rent / Lease Payments
  ➢ Utilities
  ➢ Mortgage Interest *(and secured personal prop loans)*

*NEW RULE: Non-payroll costs cannot exceed 40% of total forgiveness amount. (see Appendix A for example of rules if non-payroll costs exceed 40% of loan amount)*

Leases, loans and utility service agreements must predate February 15, 2020
REMINDER: “Final” Payroll:

- Payroll costs incurred but not paid during your 24-week “Covered Period” can be paid on or before the next regular payroll date after the end of your “Covered Period”

Example:

- “Covered Period” ends on Oct 15th
- Last bi-weekly pay period runs from Oct 9th to Oct 22
- Oct 9 – Oct 15 payroll qualifies if paid with Oct 22nd payroll
REMINDER: Non-Payroll Costs must be:

➢ Paid during the Covered Period; or

➢ *Incurred* during the Covered Period and *paid* on or before the next regular billing date, even if the billing date is after the Covered Period.

*Example:*

Covered Period runs from May 1 – Oct 15

- Electric for Apr 15 – May 14 is paid on May 24th (forgivable)

- Electric for Oct 1 – Oct 31 is paid when due on Nov 15th
  *Prorate for Oct 1 – 15*

- Rent for May is pre-paid in April
  *Does not qualify. Ask landlord to refund the rent and re-pay in May*
Reductions in Loan Forgiveness for Layoffs & Wage Reductions

Loans Greater than $50,000

REMINDER: FTE Safe Harbors

➢ Employee FTE Headcount Restoration Rule (no change)
  ▪ Layoffs occurred between Feb 15th and April 26th; and
  ▪ Employee FTE level restored by Dec 31st to FTE levels for the pay period that includes Feb 15th

➢ Can’t return to Feb 15th FTE levels due to Covid-19 rules or guidelines issued by HHS, CDC or OSHA
Reductions in Loan Forgiveness

REMINDER: Allowable FTE Reductions:

➢ Document inability to rehire staff employed on Feb 15th AND can’t find similarly qualified individuals by Dec 31st

➢ Employee declines written offer to restore hours or wages

➢ Voluntarily resigns

➢ Terminated for cause

➢ Requested hours reduction

AND

Position is not filled by a new employee
# SUBMITTED Documentation – Forms 3508S & 3508EZ

<table>
<thead>
<tr>
<th>Payroll</th>
<th>FTE</th>
<th>Non-Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank account statement for CP or APCP (if elected)</td>
<td></td>
<td>Documents verifying loan, lease or service (i) started prior to Feb 15; and, (ii) includes the Covered Period</td>
</tr>
<tr>
<td>Payroll service reports for applicable CP or APCP</td>
<td>NA</td>
<td>Mortgage/Secured Loans and Leases Copies of:</td>
</tr>
<tr>
<td>Payroll tax filings (941’s and 1028’s) for applicable CP or APCP</td>
<td></td>
<td>• LOANS: Lender amort schedule</td>
</tr>
<tr>
<td>Payment verifications (e.g. cancelled checks, payroll service reports)</td>
<td></td>
<td>• LEASE: Lease agreement</td>
</tr>
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<td>Account statements documenting employer contributions to health and retirement plans included in “Payroll” calculations</td>
<td></td>
<td>• Receipts, cancelled checks or account stmtts verifying payments (statements for Feb through month following the end of Covered Period)</td>
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**Utilities**

- Copies of invoices from Feb through those included in the Forgiveness calculation (lines 2 - 4 of PPP Forgiveness Application)
- Receipts, cancelled checks or account statements verifying payment

[13]
## SUBMITTED Documentation – Form 3508

<table>
<thead>
<tr>
<th>Payroll</th>
<th>FTE</th>
<th>Non-Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank account statement for CP or APCP (if elected)</td>
<td><strong>Reference Period FTE</strong> (Select one of following)</td>
<td>Documents verifying loan, lease or service</td>
</tr>
<tr>
<td>Payroll service reports for applicable CP or APCP</td>
<td>• Ave FTE/month from 2/15/19 – 6/30/19</td>
<td>(i) started prior to Feb 15; and, (ii) includes the Covered Period</td>
</tr>
<tr>
<td>Payroll tax filings (941’s and 1028’s) for applicable CP or APCP</td>
<td>• Ave FTE/month from 1/1/20 – 2/29/20</td>
<td>Mortgage/Secured Loans and Leases</td>
</tr>
<tr>
<td>Payment verifications (e.g. cancelled checks, payroll service reports)</td>
<td>• SEASONAL: Either of above or any consecutive 12-weeks between 5/1/19 – 9/15/19</td>
<td>Copies of:</td>
</tr>
<tr>
<td>Account statements documenting employer contributions to health and</td>
<td>&quot;SELECT PERIOD WITH LOWEST FTE VALUE&quot;</td>
<td>• LOANS: Lender amort schedule</td>
</tr>
<tr>
<td>retirement plans included in “Payroll” calculations</td>
<td>Include 941’s and 1028’s for selected Reference Period</td>
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## Retained Documentation – Form 3508S

- Documentation showing PPP funds were timely spent for qualified payroll and non-payroll expenses
- Copy of PPP loan application (including all attachments)
- Documentation demonstrating compliance with PPP requirements

Documents must be retained for 6-years from the later of date loan is forgiven or repaid in full.
Documentation showing: (i) no reduction in number of employees or average paid hours from Jan 1 though end of Covered Period; or, (ii) inability to operate at Feb 15th level due to COVID-19 rules/guidelines from HHS, CDC or OSHA

Firing for cause, voluntary resignations and written request for reduced work schedule

Inability to rehire individuals employed on Feb 15th AND can hire similarly qualified individuals

HHS, CDC or ASHO requirements or guidelines that reduced FTEs below Feb 15th levels

Copy of PPP loan application (including all attachments)

Documentation demonstrating compliance with PPP requirements

Documents must be retained for 6-years from the later of date loan is forgiven or repaid in full
**Retained Documentation – Form 3508**

**PPP Schedule A worksheet – Form 3508 only**

Documentation supporting the listing of each employee in PPP Schedule A worksheet – Form 3508 only

- **Table 1:** Salary/Hourly reduction calculations
- **Table 2:** Employee received during any single 2019 pay period compensation at an annualized rate > $100,000

Firing for cause, voluntary resignations and written request for reduced work schedule

Inability to rehire individuals employed on Feb 15\(^{th}\) AND can hire similarly qualified individuals

HHS, CDC or ASHO requirements or guidelines that reduced FTEs below Feb 15\(^{th}\) levels

Documentation supporting “FTE Reduction Safe Harbor” (if applicable)

Copy of PPP loan application (including all attachments)

Documentation demonstrating compliance with PPP requirements

Documents must be retained for 6-years from the later of date loan is forgiven or repaid in full
PPP Loan Forgiveness Summary

Appendix A: Non-Payroll Costs Exceed 40% of Loan

Facts – Borrower receives $100,000 PPP loan and spends $54,000 on payroll and $46,000 on non-payroll forgivable costs.

The borrower’s *non-payroll cost cap* (i.e. 40% of the loan) is reduced by the same percentage as the borrower fell short of spending 60% of the loan for qualifying payroll costs. Let’s call this 60% test the *payroll cost minimum*. In our example, the borrower’s payroll cost minimum is $60,000 (60% x $100,000 = $60,000); however, the borrower spent only 90% of this $60,000 minimum ($54,000 / $60,000 = 90%). Hence, the borrower will be forgiven only 90% of its non-payroll cost cap. Remember, non-payroll costs are capped at 40% of the loan which, in our example is $40,000 (40% x $100,000 loan). Since our borrower only spent 90% of the payroll cost minimum, it’s non-payroll costs will be limited to the lesser of: (i) the amount spent for qualified non-payroll costs; or (ii) 90% of its non-payroll cost cap which is $36,000. (40% cap x $100,000 loan = $40,000 non-payroll cost cap x 90% = $36,000). Now, wasn’t that fun and easy. Below is a chart summarizing these calculations.

<table>
<thead>
<tr>
<th>Loan Amt: $100,000</th>
<th>Amt Spent</th>
<th>Forgiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Cost (min 60%)</td>
<td>$54,000</td>
<td>$54,000</td>
</tr>
<tr>
<td>Non-Payroll (max 40% of payroll)</td>
<td>$46,000</td>
<td>$36,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$100,000</strong></td>
<td><strong>$90,000</strong></td>
</tr>
</tbody>
</table>
Interested in Technical Assistance for filing your Loan Forgiveness Application?

Send an email to kkuhn@mnaonline.org
Questions
COVID-19 Resources for Nonprofits

COVID Impact Study

COVID-19 Resources for Nonprofits Website

Michigan Nonprofit Association
Connect on Social Media

@MNAonline

Join LinkedIn group: Leading Nonprofits Through COVID-19
Thank You!

Please complete the short survey which will appear right after the webinar ends.