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Paycheck Protection Program Loan Forgiveness - Applicant Process

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AGENDA

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Today's Presenters



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Disclaimer

This presentation is based on the latest guidance provided by the Small Business Administration (SBA) and United States Department of the Treasury as of the date of this presentation.

We recognize that this guidance may be further updated and commit to having a compliant Paycheck Protection Program solution available for our customers.



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Owner Compensation Rules

How is the amount of owner compensation that is eligible for loan forgiveness determined?

- Identify your entity structure and/or type of tax return you filed in 2019. See following slides.
- Generally, owner-employees and self-employed individuals' payroll compensation are capped at \$100,000 or - \$20,833 per individual in total across all businesses for a 24-week Covered Period and capped at \$15,385 for an 8-week covered period. If their total compensation across businesses that receive a PPP loan exceeds the cap, owners can choose how to allocate the capped amount across different businesses.

How is the amount of owner compensation that is eligible for loan forgiveness determined?

C Corporations:

- Owner-employee is eligible for loan forgiveness up to the amount of 2.5/12 of his or her 2019 employee cash compensation. So choose from actual paid during covered period, covered period caps or 2019, whichever is lower
- Include employer state and local taxes paid by the Members on owner-employee compensation-no cap
- Include employer contributions for owner-employee health insurance
- Payments for owner-employee retirement contributions to their employee retirement plans capped at 2.5/12 of the 2019 employer retirement contribution.

How is the amount of owner compensation that is eligible for loan forgiveness determined?

S Corporations:

- Owner-employee is eligible for loan forgiveness up to the amount of 2.5/12 of their 2019 employee cash compensation
- Include employer state and local taxes paid by the Members on owner-employee compensation-no cap
- Include employer contributions for owner-employee health insurance
- Payments for owner-employee retirement contributions to their employee retirement plans capped at 2.5/12 of the 2019 employer retirement contribution.
- Employer contributions for health insurance are not eligible for additional forgiveness for S-corporation employees with at least a 2% stake in the business, including for employees who are family members of an at least 2% owner because those contributions are included in cash compensation

How is the amount of owner compensation that is eligible for loan forgiveness determined?

Self-employed Schedule C (or Schedule F) filers:

- Compensation of self-employed Schedule C (or Schedule F) individuals, including sole proprietors, self-employed individuals, and independent contractors, is limited to 2.5/12 of 2019 net profit as reported on IRS Form 1040 Schedule C line 31 (or 2.5/12 of 2019 net farm profit, as reported on IRS Form 1040 Schedule F line 34) (or for new businesses, the estimated 2020 Schedule C (or Schedule F))
- Separate payments for health insurance, retirement, or state or local taxes are not eligible for additional loan forgiveness
- Health insurance and retirement expenses are paid out of their net self-employment income
- If the Member did not submit its 2019 IRS Form 1040 Schedule C (or F) to the Lender when the Member initially applied for the loan, it must be included with the Member's forgiveness application.

How is the amount of owner compensation that is eligible for loan forgiveness determined?

General Partners:

Compensation limited to 2.5/12 of their 2019 net earnings from self-employment that is subject to self-employment tax, which is computed from 2019 IRS Form 1065 Schedule K-1 box 14a (reduced by box 12 section 179 expense deduction, unreimbursed partnership expenses deducted on their IRS Form 1040 Schedule SE, and depletion 5 As of August 4, 2020 claimed on oil and gas properties) multiplied by 0.9235

Compensation is only eligible for loan forgiveness if the payments to partners are made during the Covered Period or Alternative Payroll Covered Period.

Separate payments for health insurance, retirement, or state or local taxes are not eligible for additional loan forgiveness.

If the partnership did not submit its 2019 IRS Form 1065 K-1s when initially applying for the loan, it must be included with the partnership's forgiveness application.

How is the amount of owner compensation that is eligible for loan forgiveness determined?

LLC owners:

LLC owners must follow the instructions that apply to how their business was organized for tax filing purposes for tax year 2019, or if a new business, the expected tax filing situation for 2020. (Form 1120, 1065, or 1040 Schedule C)



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Supporting Documentation

PPP Forgiveness Documents Submission

Payroll:

Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period consisting of each of the following:

- a. Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
- b. Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
 - i. Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
 - ii. State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- c. Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Member included in the forgiveness amount. (Form 3508: PPP Schedule A, lines (6) and (7)).

Form 3508EZ: If you checked only the second box for EZ form criteria, you must submit the average number of full-time equivalent employees on payroll employed by the Member on January 1, 2020 and at the end of the Covered Period.

PPP Forgiveness Documents Submission

Nonpayroll:

Documentation verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the Covered Period.

- a. Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from before 2/15/2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
- b. Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from before 2/15/2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
- c. Business utility payments: Copy of invoices from before 2/15/2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments

PPP Form 3508 Documents Submission

FTE: Documentation showing (at the election of the Member):

- The average number of FTE employees on payroll per week employed by the Member between February 15, 2019 and June 30, 2019;
- The average number of FTE employees on payroll per week employed by the Member between January 1, 2020 and February 29, 2020; or
- In the case of a seasonal employer, the average number of FTE employees on payroll per week employed by the Member between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive 12-week period between May 1, 2019 and September 15, 2019. The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11. Documents may include payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941) and state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state. Documents submitted may cover periods longer than the specific time period.

PPP Forgiveness Member Records

Documentation supporting the certification, if applicable, that the Member was unable to operate between 2/15/2020 and the end of the Covered Period at the same level of business activity as before 2/15/2020 due to compliance with requirements or guidance issued between 3/1/2020 and 12/31/2020 by the Health and Human Services, Centers for Disease Control and Prevention, or OSHA, related to the maintenance of standards of sanitation, social distancing, or customer safety requirement related to COVID-19. This documentation must include copies of the applicable requirements for each Member location and relevant Member financial records.

PPP Forgiveness Member Records

- Documentation regarding any employee job offers and refusals, refusals to accept restoration of reductions in hours, firings for cause, voluntary resignations, written requests by any employee for reductions in work schedule, and any inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020.
- The Member must retain all documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector

PPP Form 3508EZ Member Records

Documentation supporting that annual salaries or hourly wages were not reduced by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period for the period between January 1, 2020 and March 31, 2020. **This documentation must include payroll records that separately list each employee and show the amounts paid to each employee during the period between January 1, 2020 and March 31, 2020, and the amounts paid to each employee during the Covered Period or Alternative Payroll Covered Period.**

Documentation supporting the certification, if applicable, that the Member did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period (other than any reductions from an inability to rehire individuals who were employees on February 15, 2020, if the Member was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020). **This documentation must include payroll records that separately list each employee and show amounts paid to each employee between January 1, 2020 and the end of Covered Period.**

PPP Form 3508 Member Records

- Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
- Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.
- Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor 2.”



PPP Forgiveness Forms Instructions/ Resources



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Forgiveness Submission Support

Form 3508EZ Instructions link:

<https://home.treasury.gov/system/files/136/PPP-Loan-Forgiveness-Application-Form-EZ-Instructions.pdf>

Form 3508 Instructions link:

https://home.treasury.gov/system/files/136/PPP-Loan-Forgiveness-Application-Instructions_1_0.pdf

Resource Page Member Videos

- Supporting Documentation Requirements
- Accessing the Application and Getting Started
- Form 3508 EZ Completion
- Form 3508 Manual Input
- For applicants using calculation spreadsheet:
 - Schedule A – Overview
 - Schedule A – Getting Started and Salary/Hourly Wage Step 1
 - Schedule A – Salary/Hourly Wage Step 2
 - Schedule A – Salary/Hourly Wage Step 3
 - Schedule A – FTE Reduction Calculation
 - Schedule A – Safe Harbor Calculation
 - Schedule A – Uploading Spreadsheet and Finishing Schedule A
- Finishing the Application

Questions



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Thank You

