

# NEW CHANGES TO PPP FORGIVENESS

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# AGENDA

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Brief Overview



Definitions of Key Terms



Which Form to Use?



Safe Harbors



Application Examples



Additional Documentation



Potential Legislative Changes



Q & A

# BRIEF OVERVIEW

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## Initial funding

- second round of funding needed

## PPP Flexibility Act, major changes

- 24 weeks
- 75% → 60% threshold for payroll expenditures
- 2-year or 5-year repayment plan
- Safe harbors: restore wages, EEs → full forgiveness
- Defer 2020 ER SS tax

## Funds still available

- Deadline 8/8/2020

## EIDL advance

- reduces amount of PPP forgiveness

# DEFINITIONS OF KEY TERMS

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- EE and ER: Employee and Employer
- Covered Period
  - 24 weeks from loan disbursement
  - Prior to 6/5, can elect 8-week period
- Alternative Covered Period
  - Starts the first payroll period after disbursement
    - Must be weekly or bi-weekly payroll to elect

## EXAMPLE:

Simon's Smokehouse received a loan on 5/1. Their 24-week **covered period** would be 5/1 – 10/16.

Since they run payroll Sunday-Saturday, Miss Simon elected to have their **alternative covered period** run from Sunday 5/3 to Saturday 10/18.

# DEFINITIONS OF KEY TERMS

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- Cash and Noncash Compensation
  - Gross salary, wages, tips, etc.
  - ER contributions for health insurance and retirement plans
    - excluding self-employed, general partners, and S-Corp owners (S-Corp owners' retirement only)
  - ER portion of state and local taxes, but not FICA

Nonowners' payroll, capped at \$100k:

- 8 weeks: \$15,385 (8/52)
- 24 weeks: \$46,154 (24/52)
- plus health insurance and retirement plans

Owners' payroll costs:

- 8 weeks: \$15,385 (8/52)
- 24 weeks: \$20,833 (2.5/12)

# DEFINITIONS OF KEY TERMS

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- **Business Mortgage Interest Payments**
  - real or personal property before 2/15
  - does not include prepayments or principal
- **Business Rent or Lease Payments**
  - real or personal property before 2/15
  - related party rentals allowed

# DEFINITIONS OF KEY TERMS

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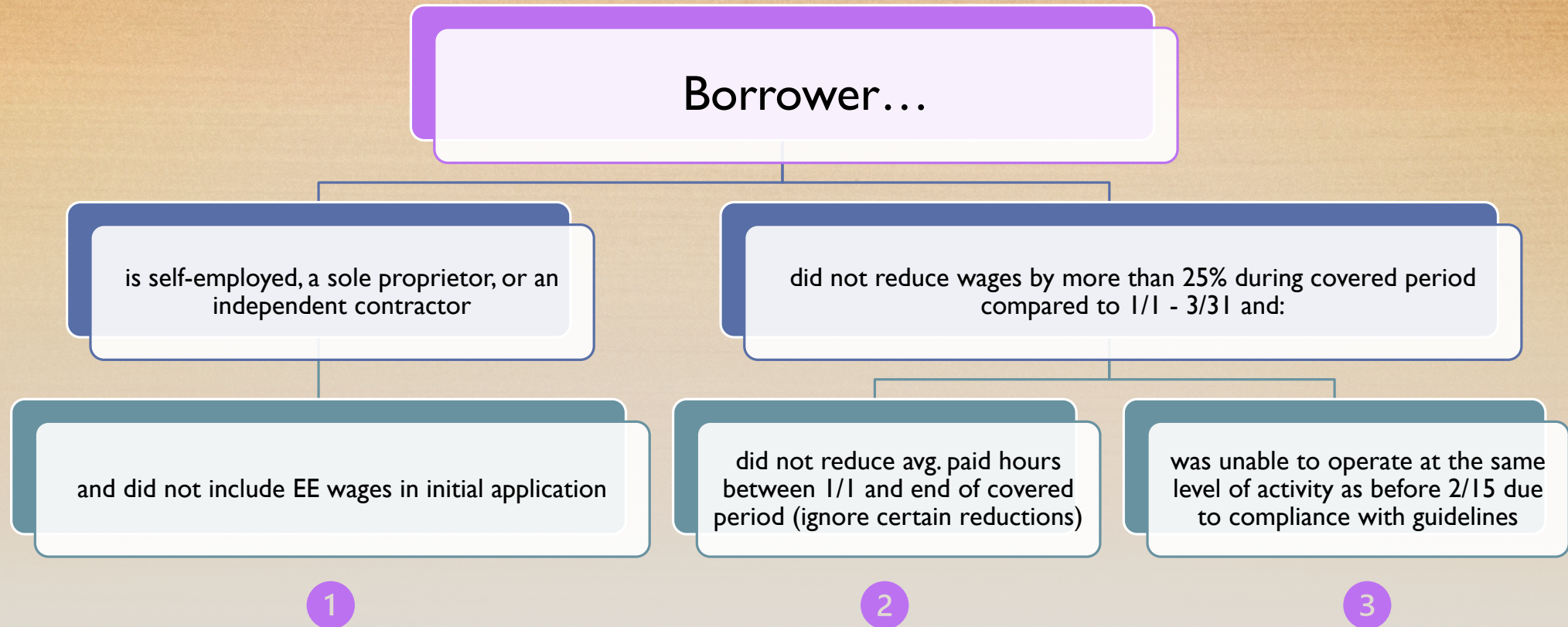
- **Business Utility Payments**
  - utilities including transportation
  - service began prior to 2/15
- **Full-Time Equivalent Employee (FTE)**
  - to calculate forgiveness reduction based on reduced EE count
  - average weekly hours / 40 not to exceed 1.0

## Simplified Calculation Method:

EEs working 40+ hours = “1.0”

EEs working fewer than 40 = “0.5”

# EZ OR NOT EZ?





# SAFE HARBORS (NO EZ)

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- FTE Safe Harbor #1
  - If business activity was reduced between 2/15 and the end of your covered period due to compliance with federal guidelines, you will not have a reduction in forgiveness amounts
- FTE Safe Harbor #2
  - Exempt from reduction in loan forgiveness if...
    - reduced FTE level between 2/15 – 4/26 AND
    - then restored level before earlier of 12/31/2020 or date of forgiveness application
- Wage Reduction Safe Harbor
  - Can reduce average annual wages during covered period by 25%, compared to the same between 1/1/2020 – 3/31/2020
  - If more than 25%, safe harbor will be met if brought back to 2/15/2020 levels by earlier of 12/31/2020 or date of forgiveness application

# APPLICATION EXAMPLES

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- Many banks will have an online forgiveness application
- [PPPForgivenessTool.com](https://www.pppforgiveness.com)
- 3508EZ application example:
  - One owner, two EEs, with no changes to their pay or hours
  - 100% forgiven

# Form 3508EZ

**Assumptions:** no change or reduction in wage or employee count.

<u>Name</u>	<u>Owner?</u>	<u>Wages</u>	<u>Payroll costs</u> <u>For PPP</u>
Jane Smith	Yes	\$ 100,000	\$ 20,833 (2.5/12 X \$100,000)
Ken Smith	No	\$ 50,000	\$ 23,077 (24/52 X \$50,000)
Luke Smith	No	\$ 50,000	\$ 23,077 (24/52 X \$50,000)
		<b>\$ 200,000</b>	<b>\$ 66,987 Total payroll costs</b>

Original loan amount:	<b>\$ 200,000</b>
/ 12	\$ 16,667
x 2.5	<b>\$ 41,667</b>
	<b>Loan amount</b>

	<u>4 Weeks</u>	<u>24 Weeks</u>
Rent:	\$ 2,000	<b>\$ 12,000</b>
Utility:	\$ 500	<b>\$ 3,000</b>

# APPLICATION EXAMPLES

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- Many banks will have an online forgiveness application
- [PPPForgivenessTool.com](https://www.pppforgiveness.com)
- 3508EZ application example:
  - One owner, two EEs, with no changes to their pay or hours
  - 100% forgiven
- 3508 application example:
  - One owner, two EEs. One employee's hours/pay are cut by 50%
  - No safe harbors met (rare, used to illustrate how forms work)
  - Even with reduction in FTE, since 24 weeks of expenses are included, borrower will still qualify for full forgiveness (would not have qualified for full forgiveness if only 8 weeks allowed)

# Form 3508

**Assumptions:** Luke's hours/pay were cut in half after receiving PPP funds and never restored.

No safe harbor applies.

			<u>Payroll costs</u>	
<u>Name</u>	<u>Owner?</u>	<u>Wages</u>	<u>For PPP</u>	
Jane Smith	Yes	\$ 100,000	\$ 20,833	(2.5/12 X \$100,000)
Ken Smith	No	\$ 50,000	\$ 23,077	(24/52 X \$50,000)
Luke Smith	No	\$ 50,000	\$ 11,538	(24/52 X \$25,000)
		<b>\$ 200,000</b>	<b>\$ 55,448 Total payroll costs</b>	

<u>FTE count as of:</u>		
	<u>2/15/20</u>	<u>10/18/20</u>
	N/A	N/A
	1	1
+	1	0.5
=	2	1.5

Original loan amount:	<b>\$ 200,000</b>
/ 12	\$ 16,667
x 2.5	<b>\$ 41,667</b>
	<b>Loan amount</b>

	<u>4 Weeks</u>	<u>24 Weeks</u>
Rent:	\$ 2,000	\$ 12,000
Utility:	\$ 500	\$ 3,000

# ADDITIONAL DOCUMENTATION

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- Documentation to verify your payroll, health insurance, retirement contributions, mortgage interest, business rent, and utility payments
  - payroll reports, invoices, canceled checks, bank statements, lease agreements, etc.
- Certain information will be provided to lender while other information should be maintained by borrower
- Full list of required documentation is included in the instructions to forms
- Additional documentation required for 3508

# POTENTIAL LEGISLATIVE CHANGES

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- To make all PPP loans below \$150,000 automatically forgiven
- To make expenses deductible that were funded through PPP money
  - Currently the PPP loan forgiveness is nontaxable, the related expenses nondeductible
- To offer another round of PPP for severely impacted businesses
- Additional \$1,200 stimulus checks
- Extension of additional \$600 unemployment benefits

# Q & A

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