



# PAYCHECK PROTECTION PROGRAM: LOAN FORGIVENESS Q&A

Presented by



CITIZENS  
STATE BANK

TAFOYA BARRETT  
AND ASSOCIATES PC



U.S. Small Business  
Administration

Thursday, July 16, 2020

# Agenda

- I. Path to PPP Forgiveness
- II. Working with Your Lender
- III. Q&A

# Panelists

- ❖ **Mark Betts**, Senior Vice President, ASAP Accounting & Payroll
- ❖ **Jessica Frigetto**, Chief Lending Officer, Citizens State Bank
- ❖ **Alexander Price**, Chief Strategy Officer, Citizens State Bank
- ❖ **Brad Tafoya**, CPA/Shareholder, Tafoya Barrett and Associates PC
- ❖ **Steve White**, Lead Lending Relations Specialist, SBA Colorado District Office

## ***The Fine Print***

*This information is provided as a self-help tool and does not constitute legal or financial advice. Laws, regulations and lending products are changing daily and decisions as to whether or how to use this information and/or what actions to take in response to the COVID19 Pandemic are solely those of the employer. The providers of this information disclaim any and all responsibility and liability for its accuracy, completeness or fitness for your particular business purposes.*

# Pathway to PPP Forgiveness

*Achieving forgiveness may be easier  
than you think! Getting started is  
the biggest hurdle.*



- **Salary/wage comparison**
  - Did you reduce any employee salary or hourly wages by more than 25%?
  - Are you able to restore salary/wage levels by the end of your covered period or 12/31/2020?
- **FTE provision**
  - Were you impacted by public health requirements?
  - Did your staffing levels decrease? (Ignore staff reductions due to inability to rehire, terminations, resignations, voluntary reduced hours)
  - Are you able to restore FTE level by the end of your covered period or 12/31/2020?
- **Covered Period: 8- or 24-week period?** (If you received funds before 6/5, you can elect to use 8-week covered period)
  - Alternative Payroll Covered Period (weekly or bi-weekly only)
  - Eligible expenses incurred or paid
- Track & document eligible payroll and non-payroll expenses
- Do a trial run using the EZ Forgiveness Form

# Eligible Expenses

To achieve forgiveness, you must spend PPP funds on eligible expenses that are incurred or paid at any time during your 8- or 24-week covered period.

## Forgiveness Amount Calculation:

### Payroll and Nonpayroll Costs

Line 1. Payroll Costs:

Line 2. Business Mortgage Interest Payments:

Line 3. Business Rent or Lease Payments:

Line 4. Business Utility Payments:

### Potential Forgiveness Amounts

Line 5. Add the amounts on lines 1, 2, 3, and 4:

Line 6. PPP Loan Amount:

Line 7. Payroll Cost 60% Requirement (divide Line 1 by 0.60):

### Forgiveness Amount

Line 8. Forgiveness Amount (enter the smallest of Lines 5, 6, and 7):

*Screenshot of EZ Forgiveness Form*

# Eligible Expenses

For full forgiveness, you must spend at least 60% on payroll costs; you can spend up to 100% on payroll.

Not more than 40% of your forgiveness amount may be for non-payroll costs.

## Eligible Non-payroll Costs

*For contracts & services in place prior to 2/15/2020*

- Business mortgage interest
- Rent/lease payments
- Utility payments

## Eligible Payroll Costs

- Gross salary/wages
- Health insurance & retirement employer contributions
- Employer portion of state UI & local payroll taxes

## Payroll Cost Notes

- Limited to \$100,000 annualized per employee
- Include compensation only earned by employees whose primary residence is US
- Does not include FFCRA sick leave
- Do not include payments to independent contractors



#ZM-DEMO Generic Company, Inc.

Check Register (S109)	
Check Date :	07/03/2020-1
Period Range :	06/01/2020 TO 07/10/2020
Week Number :	Week #27

Employee Name		Social Security Number		Salary		Frequency		Check Number	Check Date	Check Type	Net Check
Earnings Description	Rate of Pay	Current Hours	YTD Amount	Deductions Description	Current Amount	YTD Amount		Taxes Description		Current Amount	YTD Amount
								OASDI		99.20	99.20
								Medicare		23.20	23.20
								State CO (S/0)		59.00	59.00
Check Totals:		80.00	1,600.00			0.00	0.00			318.94	318.94
<b>Company</b>				<b>11 Checks</b>		<b>11 EMPLOYEES</b>					10,226.96
01 Regular Hou	0.00	893.33	13,440.00	01 Direct Deposit Cl	5,458.88	8,654.08		Federal		1,708.75	2,708.22
07 Salary	0.00	0.00	9,200.00	02 Direct Deposit Se	2,120.72	2,120.72		OASDI		1,371.61	1,942.01
				20 Health Prem. - S	250.50	250.50		Medicare		320.78	454.18
				21 Dental Prem - S1	16.80	16.80		State CO		717.00	1,114.00
				28 HSA Single	250.00	250.00				<b>4,118.14</b>	<b>6,218.41</b>
				40 401k deferral	198.00	198.00		ER OASDI		1,371.61	1,942.01
				40 401K Match	198.00	198.00		ER MEDICARE		320.78	454.18
								ER FUI		132.74	187.94
								CO-SUI		<b>1,707.87</b>	2,418.11
										<b>3,533.00</b>	<b>5,002.24</b>
Company Totals:		893.33	22,640.00			8,492.90	11,688.10			7,651.14	11,220.65

to Generic Company, Inc.

PPP Applicable Payroll Costs (B639)	
Check Date :	07/03/2020-1
Period Range :	06/01/2020 TO 07/10/2020
Week Number :	Week #27

Example of an ASAP Accounting & Payroll report showing eligible payroll costs

Applicable PPP Gross Wages*	\$ 22,640.00
ER State/Local Taxes	\$ 1,707.87
ER Retirement Match	\$ 198.00
<b>TOTAL</b>	<b>\$ 24,545.87</b>

# Can You Use the EZ Form?

## EZ Form Eligibility

- Self-employed or a sole proprietor with no employees  
-OR-
- You did not reduce any annual salaries or hourly by 25% or more and you did not reduce FTE count (safe harbor exemptions apply)  
-OR-
- You did not reduce any annual salaries/hourly wages by 25% or more and your business operations were limited during your covered period due to compliance with public health orders

Note: If you did reduce salary/wages or FTE, you can still use the EZ form if you restore them by the end of your covered period



## Working With Your Lender

- **Don't rush:** Communicate with your lender to ensure they're ready to process forgiveness applications with the SBA
- **You're ready to apply for forgiveness when:**
  - You've maximized your use of PPP funds
  - You've compiled the necessary expense reports & supporting documentation
  - You feel confident about your ability to meet all the requirements & certifications on the PPP EZ Form
- **Forgiveness Timeline:** Your lender has 60 days to review your forgiveness application and issue a decision on your forgiveness amount; you can appeal this decision and request an SBA review
- **Forgiveness Application Deadline:** Within 10 months following the end of your covered period



**Paycheck Protection Program  
PPP Loan Forgiveness Application Form 3508EZ**

**Documents that Each Borrower Must Submit with its PPP Loan Forgiveness Application Form 3508EZ**

**PPP Loan Forgiveness Calculation Form 3508EZ**

**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 Borrower included in the forgiveness amount.
- d. If you checked only the second box on the checklist on page 1 of these instructions, the average number of full-time equivalent employees on payroll employed by the Borrower on January 1, 2020 and at the end of the Covered Period.

**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 February 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 February 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 February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments

**Documents that Each Borrower Must Maintain but is Not Required to Submit**

Documentation supporting the certification that annual salaries or hourly wages were not reduced by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period relative to 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 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.

Documentation supporting the certification, if applicable, that the Borrower 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 that arose from an inability to rehire individuals who were employees on February 15, 2020, if the Borrower 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 the amounts paid to each employee between January 1, 2020 and the end of the Covered Period.

Documentation supporting the certification, if applicable, that the Borrower 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 of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19. This documentation must include copies of the applicable requirements for each borrower location and relevant borrower financial records.

All records relating to the Borrower's PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower's certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower's loan forgiveness application, and documentation demonstrating the Borrower's material compliance with PPP requirements. The Borrower must retain all such 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 General, to access such files upon request.

## Covered Period

You have 24 weeks from the day you received your PPP funds, or until 12/31/2020 (whichever is earlier), to spend your loan on eligible expenses.

- "Alternative Payroll Covered Period" may be used to align with bi-weekly or more frequent pay periods
- Borrowers who received PPP funds before 6/5 may elect to use the 8-week covered period
- You do not have to wait until the end of your covered period to apply for forgiveness
  - You can apply for forgiveness when you have maximized the use of your funds and meet the FTE and salary/wage level requirements (or safe harbor exemptions)
  - *Note: It's not yet clear if you need to maintain FTE and salary/wage levels through the end of your covered period if you apply for and receive forgiveness prior to the end date. Our source at the SBA does not think those levels need to be maintained after forgiveness is granted.*

# Salary/Wage Reduction

Your forgiveness amount may be reduced in proportion to salary/hourly wage reductions of 25% or more during your covered period compared to Q1 2020.

- Reduction provision applies to employees who makes less than \$100,000
- You are exempt from this requirement if you restore any reductions in salary/wages prior to the end of your covered period.
- Per the forgiveness application instructions:
  - The actual amount of loan forgiveness the Borrower will receive may be less, depending on whether the salary or hourly wages of certain employees during the Covered Period or the Alternative Payroll Covered Period was less than during the period from January 1, 2020 to March 31, 2020.
  - If the Borrower restored salary/hourly wage levels, the Borrower may be eligible for elimination of the Salary/Hourly Wage Reduction amount.

# FTE Reduction

Your loan forgiveness amount may be less if the average weekly number of FTE employees during your covered period is less than your chose reference period.

You do not have to count FTE reductions due to inability to fill open positions by Dec. 31, 2020; requests for reduced hours; terminations, resignations & retirement. There are also safe harbor exemptions related to public health orders and FTE restoration.

## FTE: Full-Time Equivalent Employee

Calculation is based on 40-hour workweek

- One full-time employee = 1 FTE
- Part-time may be calculated as 0.5 FTE or by using and hours equivalency calculation (round to nearest tenth).

## FTE Reference Period Options

If the FTE safe harbor exemptions do not apply to you, you will need to calculate the impact of FTE reductions on your forgiveness amount by comparing your average weekly FTE employees during the covered period to one of the following reference periods:

- Feb. 15, 2019 – June 30, 2019; **OR**
- Jan. 1, 2020 – Feb. 29, 2020
- Seasonal employers may use either of the above reference periods, or any consecutive 12-week period between May 1, 2019 - Sept. 15, 2019



# FTE Reduction Safe Harbors

Two safe harbor provisions exempt borrowers from loan forgiveness reduction based on a reduction in FTE employee levels.

## **FTE Reduction Safe Harbor 1**

Exempt from FTE requirement if you can document limited business activity from Feb. 15, 2020 through the end of covered period due to compliance with public health requirements to slow the spread of COVID-19.

## **FTE Reduction Safe Harbor 2**

Exempt from FTE requirement if you restore reductions in staffing levels by Dec. 31, 2020 to the same level in your pay period that included Feb. 15, 2020.

## **FTE Reduction Exceptions**

Any FTE reductions due to the following situations **do not impact** your loan forgiveness amount:

- Inability to rehire same or similarly qualified individual(s) for unfilled positions by Dec. 31, 2020
- Employee declines offer to restore any reduction in hours at the same salary or wages
- Termination for cause, resignation, or retirement
- Employee request for reduction in hours

# Owner Compensation

Calculating payroll costs for owner-employees, self-employed individuals, and general partners

## Owner Compensation Limits

- **24-week covered period:** capped at \$20,833 (the 2.5-month equivalent of \$100,000 per year) for each individual or the 2.5-month equivalent of their applicable compensation in 2019, whichever is lower
- **8-week covered period:** capped at \$15,385 (the eight-week equivalent of \$100,000 per year) for each individual or the eight-week equivalent of their applicable compensation in 2019
- Prorate owner draws as needed for covered period
- Do not add employer health insurance and employer retirement contributions made on behalf of a self-employed individual, general partners, or owner-employees of an S-corporation

**Owner-employees and SE individuals who received a PPP loan before 6/5/2020 and elect to use an 8-week covered period:** Capped at eight weeks' worth (8/52) of 2019 compensation or \$15,385 per individual, whichever is less, in total across *all* businesses

**Owner-employees and SE individuals using 24-week covered period:** Capped at 2.5 months' worth (2.5/12) of 2019 compensation or \$20,833 per individual, whichever is less, in total across *all* businesses

**C-corporation owner-employees:** 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:** Capped by the amount of their 2019 employee cash compensation and employer retirement contributions made on their behalf, but employer health insurance contributions made on their behalf cannot be separately added because those payments are already included in their employee cash compensation.

**Schedule C or F filers:** Capped by the amount of their owner compensation replacement, calculated based on 2019 net profit.

**General partners:** Capped by the amount of their 2019 net earnings from self-employment (reduced by claimed section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235.

**Retirement & Health Contributions Note:** For self-employed individuals, including Schedule C or F filers and general partners, retirement and health insurance contributions are included in their net self-employment income and therefore cannot be separately added to their payroll calculation.

# PPP Resources

- [Loan Forgiveness Application Form EZ \(3508EZ\)](#)
- [Loan Forgiveness Application Form EZ Instructions](#)
- [Loan Forgiveness Application](#)
- [Full Loan Forgiveness Application Instructions](#)
- [US Treasury & SBA PPP FAQs](#)
- [ASAP PPP Forgiveness FAQs](#)
- [US Treasury PPP Web Page](#)
- [SBA PPP Web Page](#)