



F201: PPP Forgiveness Allowable Expenses

FORGIVENESS UNIVERSITY



Today's Presenters



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ACAP and Armanino Partnership: Forgiveness U.

- **Distance Learning Program**
 - Introductory F100 webinar – Overview of the Basics
 - 3 monthly webinars on key topics
- **Knowledge Center on ACAP's website**
 - “Forgiveness Google” – Searchable FAQ Library
 - Guide to the Basics
 - Glossary of Key Terms Reference Guide
 - Recordings of each Webinar
- **Forgiveness Application Preparation Service**
 - Simple process – send us your reports, sign the application when it's done
 - Enables a fast review of your file



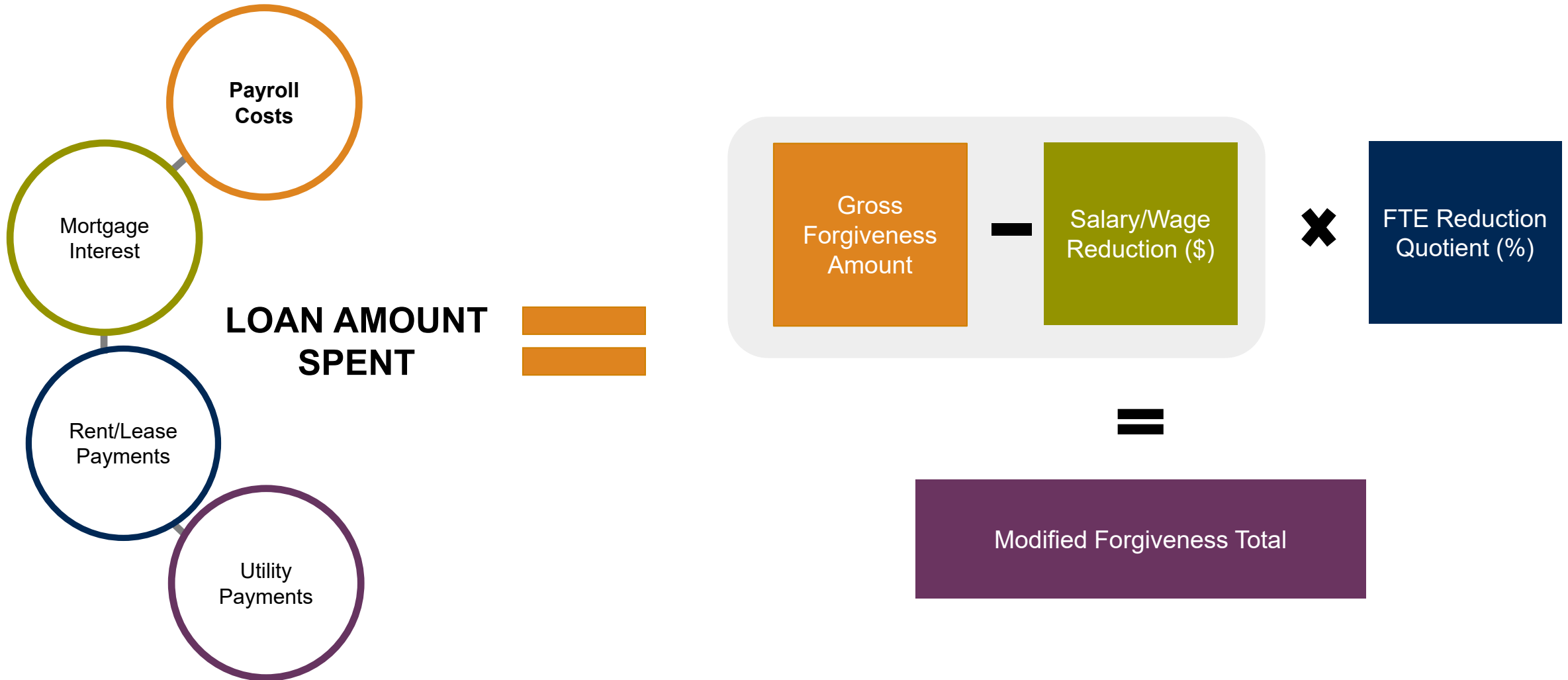
F201: Syllabus

- Forgivable Expenses for each Spend Category
- Legal Structure Rules and Implications
- Owner's Compensation – clarifying the confusing
- Making sense of the Forgiveness Calendar
- Special Situation FAQs

- **Goal: more answers than questions** (we hope!)



Forgiveness Math: A Refresher



Forgiveness Math: A Refresher



LOAN AMOUNT
SPENT

👉 EZ Form: Line 1

👉 Standard Form, Schedule A: Lines 1, 4, 6-9

Expense Item	Included	Excluded
Gross salary, wage, commission, tips, bonus or similar compensation <i>(capped at \$100K annualized, or \$1,923/week times # of weeks)</i>	✓	
Self-employment income <i>(capped at: 8 weeks – lower of 8/52 of 2019 Schedule C Net Income or \$15,385 24 weeks – lower of 2.5 months of 2019 Schedule C Net Income or \$20,833)</i>	✓	
Guaranteed partner payments <i>(capped at \$100K annualized)</i>	✓	
Payroll and employer portion of Medical, Retirement and State or Local tax assessed under a PEO co-employment arrangement	✓	
Overtime, vacation, sick leave (unless the sick leave pay is covered by FFCRA/Cares Act)	✓	
Employer portion of group health care benefits including medical, dental, vision and HSA	✓	
Employer portion of retirement benefits, including DBP and DCP	✓	
Employer portion of State or local tax assessed on employee compensation	✓	
Severance and PTO payouts for terminated employees	✓	

Forgiveness Math: A Refresher



LOAN AMOUNT
SPENT

👉 EZ Form: Line 1

👉 Standard Form, Schedule A: Lines 1, 4, 6-9

Expense Item	Included	Excluded
Self-employed health insurance costs		✓
Temporary employees paid through a staffing agency		✓
Per diem payments or monthly allowances		✓
Life insurance, long/short term disability, long term care insurance, accident, AD&D, critical illness, cancer or hospitalization/special insurance plans, and workers' compensation insurance		✓
2019 Profit Sharing contributions		✓
Union dues (beyond health insurance and pension costs)		✓
Independent Contractors		✓
Employees paid by federal grants		✓
Federal employment or income taxes (FICA, FIT, FUTA)		✓
Employee Benefits deductions		✓
Prepaid retirement contributions		✓
Childcare benefits and education reimbursements		✓

Forgiveness Math: A Refresher



**Mortgage
Interest**

LOAN AMOUNT
SPENT

👉 EZ Form: Line 2

👉 Standard Form: Line 2

- Applies to any real *or personal* property with a secured loan
- Only interest is forgivable; principal may not be included
- Evidence of the amortization schedule needs to be submitted with your application

Expense Item	Included	Excluded
Mortgage loan on a building	✓	
Payments on a note to purchase a fixed asset	✓	
Loans used to buy a fleet of vehicles	✓	
Buy-out payments to a former partner		✓
Interest on a Line of Credit, Letter of Credit and/or bank loan fees		✓

Forgiveness Math: A Refresher

- Applies to any real *or personal* property with a lease
- The entire payment is forgivable



**Rent/Lease
Payments**

LOAN AMOUNT
SPENT

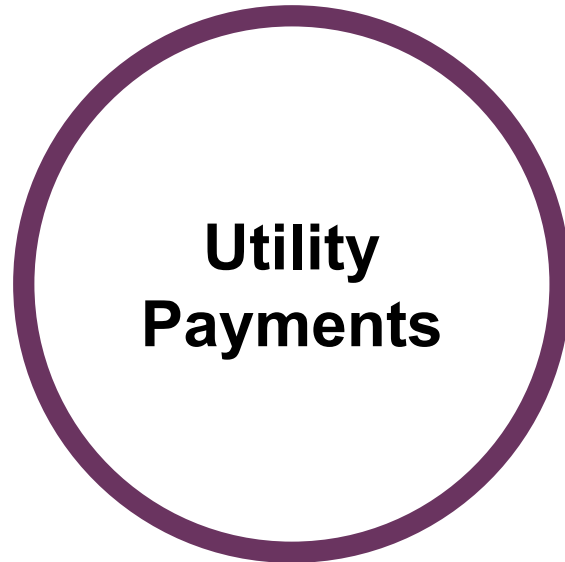
👉 EZ Form: Line 3

👉 Standard Form: Line 3

Expense Item	Included	Excluded
Office or storage facility rent (<i>rent portion only of NNN lease</i>)	✓	
Leased fleet vehicles (<i>must be in company's name</i>)	✓	
Leases on company and/or office equipment (including copiers, mail equipment, furniture, computers, etc.)	✓	
Corporate housing lease (<i>must be in company's name</i>)	✓	
Parking at an office if separate lease	✓	
Parking expenses not covered by a separate lease		✓
Property taxes, insurance and CAM on office space		✓
Leased employees or vehicles not in company's name		✓
Newly leased property since 2/15/20 (<i>including new down-sized office</i>) (<i>NOTE: Renewal lease on previously leased property is OK</i>)		✓

Forgiveness Math: A Refresher

- Includes: Electricity, Gas, Water, Internet Access, Telephone, Transportation



LOAN AMOUNT
SPENT

👉 EZ Form: Line 4

👉 Standard Form: Line 4

Expense Item	Included	Excluded
Electric bill received 2 days after funding, covering prior service period	✓	
Fuel for business vehicles owned or leased by the company	✓	
Transportation Utility Fees assessed by state and local governments	✓	
Maintenance on business vehicles		✓
Auto allowances and mileage reimbursements		✓
Software license costs, managed services for enterprise servers, data storage service, monthly email/website hosting fees		✓
Internet access from home or cell phone reimbursement for employees initiated as a result of COVID work-from-home rules		✓
Waste pickup and trash disposal		✓
Security alarm system and monitoring service		✓

Payroll Cycle Questions

- **Question:**

Are payroll costs that were incurred before the Covered Period but paid during the Covered Period eligible for loan forgiveness?

- **Answer: Yes!**

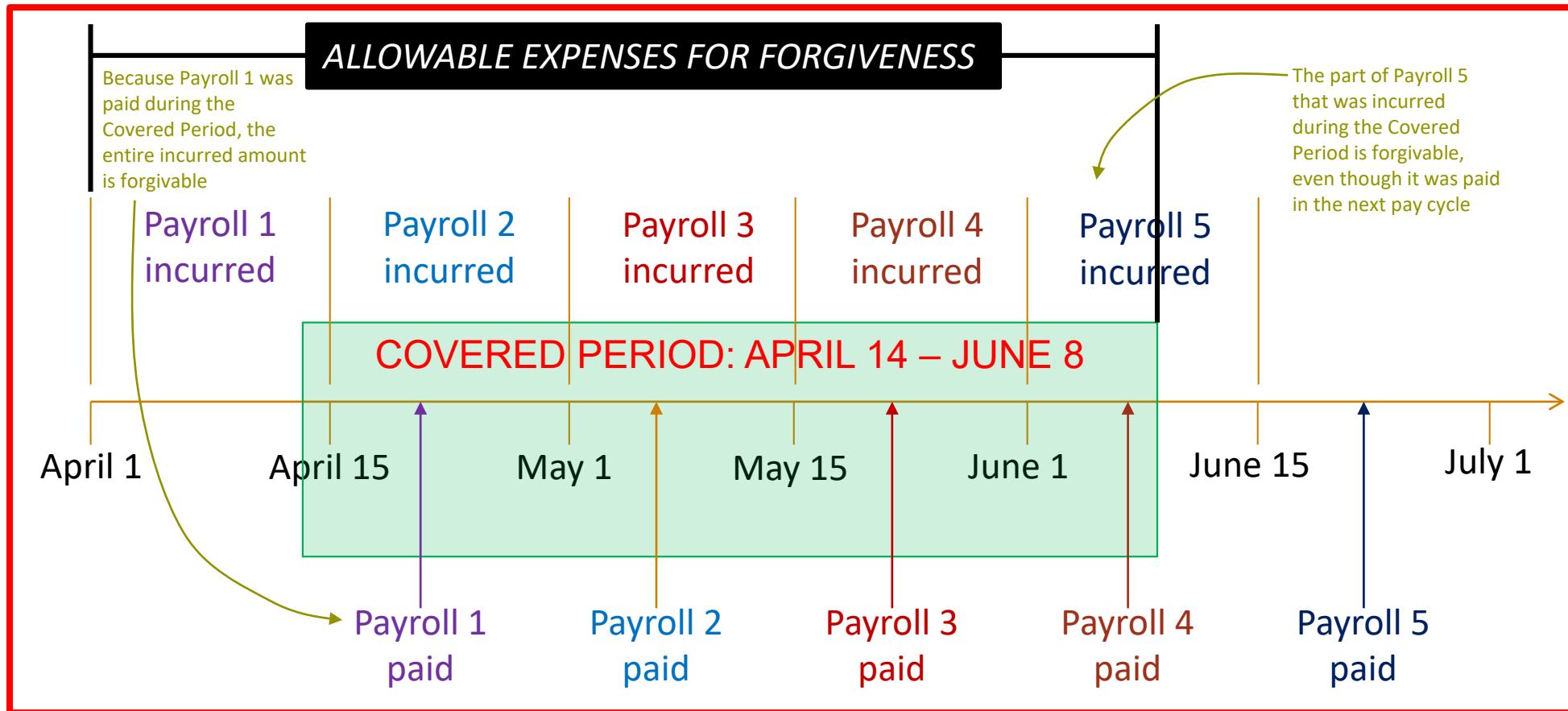
- **Question:**

Are payroll costs that were incurred during the Covered Period but paid after the Covered Period eligible for loan forgiveness?

Answer: Yes!

...if the payroll costs are paid on or before the next regular payroll date after the Covered Period

Incurred vs. Paid Rules for Forgiveness





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Quiz #1



Legal Structure Rules and Implications

- Legal Structure of your company has no effect on whether you can use the EZ Form or the Standard Form for your forgiveness application
- It also has no effect on Employee Payroll Costs, Mortgage Interest Expense, Rent/Lease Costs or Utilities Expenses
- Your legal structure only matters for Owner's Compensation purposes
- "Owner-Employees": Self-employed persons, also referred to as "Owner-Employees" in the PPP program, are those who are sole proprietors, Single Member LLCs, General Partners, S-Corp shareholder/employees and C-Corp shareholder/employees.

Rules and Implications for Owner-Employees

Form of Organization	Max Owner's Comp (8 weeks)	Max Owner's Comp (24 weeks)	Fringe Benefits Rules
C-Corporation	W-2 Owner-Employees capped at 8/52 nd of 2019 W2 or \$15,385	W-2 Owner-Employees capped at 2.5/12 th of 2019 W2 or \$20,833	<ul style="list-style-type: none"> • Employer-paid SALT • Employer-paid retirement contributions • Employer-paid portion of health insurance • All the above are uncapped
S-Corporation	Ditto	Ditto	<ul style="list-style-type: none"> • Employer-paid SALT • Employer-paid retirement contributions up to 2.5/12th of 2019 contribution • No forgiveness for health insurance unless ownership <2% • All the above are uncapped
LLC Owners/ LLP General Partners	Capped at lesser of 8/52 nd 2019 K1 Self-Employment Earnings or \$15,385	Capped at lesser of 92.35% of 2.5/12 th of 2019 K1 Self-Employment Earnings (Box 14a) or \$20,833	<ul style="list-style-type: none"> • No forgiveness for health, retirement or SALT payments
Self-Employed Schedule C & F and Single Member LLCs	Capped at lesser of 8/52 nd of 2019 Taxable Profit on Schedule C/F, or \$15,385	Capped at lesser of 2.5/12 th of 2019 Taxable Profit on Schedule C/F, or \$20,833	<ul style="list-style-type: none"> • No forgiveness for health, retirement or SALT payments



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Quiz #2



De-Mystifying the Forgiveness Calendar

- Forgiveness rules have many different important dates and time periods
- They are each important to their task but generally do not relate to one another
- Sometimes you have a choice available and sometimes you do not



De-Mystifying the Forgiveness Calendar

Forgiveness Factor	Defined As	Compared to	Choice Available?	Other Notes
Covered Period	Either 56 or 168 days from date PPP funds were disbursed (Day 1)		Yes – 8 weeks or 24 weeks	Applies to all cost categories unless Alternative is chosen for Payroll Costs only
Alternative Covered Period – for Payroll only	Begins with first day of first payroll cycle after PPP funds were disbursed, for either 8 or 24 weeks		Yes – Elect to use it or not	Available only for Employers who pay at least 26 pay cycles per year. Payroll only; no other fringe costs or pay cycles.
Simplified FTE Method	1 FTE for those who work >40 hours and .5 FTE for those who work <40 hours per week	Jan/Feb 2020 <u>OR</u> Feb 15 th -Jun 30 th 2019	Yes	Seasonal employers can also pick any 12 weeks between May 1 st and Sept 15 th 2019.
Salary Reduction Factor	A per-person dollar amount applied to wage reductions > 25% during Covered Period	Average annual salary or hourly wage during Jan 1 st – Mar 31 st 2020	No	Calculated for each employee under annualized \$100K in 2019. Only the amount over 25% is deducted: deduct 5% if a 30% wage reduction.
Salary Reduction Safe Harbor Step #1	If average Annual Salary or Hourly Wage during Feb 15 th -Apr 26 th 2020, <i>is equal to/greater than...</i>	Annual Salary or Hourly Wage <u>on</u> Feb 15 th	No	Then there is no Safe Harbor for that person. <i>Calculated for each employee, one at a time</i>

De-Mystifying the Forgiveness Calendar

Forgiveness Factor	Defined As	Compared to	Choice Available?	Other Notes
Salary Reduction Safe Harbor	If Safe Harbor Step #1 fails, but average wages are restored by....	the earlier of December 31 st or date application is submitted	No	If Pay level is restored, Safe Harbor is met
FTE Reduction Factor	Reduction in number of FTEs or employee hours during Covered Period	Jan/Feb 2020 <u>OR</u> Feb 15 th -Jun 30 th 2019	Yes	Seasonal employers can also pick any 12 weeks between May 1 st and Sept 15 th 2019.
FTE Reduction Exceptions	Positions offered and rejected, voluntary resignations, staff fired for cause, leaves, etc.	Jan/Feb 2020 <u>OR</u> Feb 15 th -Jun 30 th 2019 (seasonal option too)	Yes, in terms of the lookback period chosen	These situations are out of the control of the borrower. Each requires written documentation
FTE Reduction Safe Harbor #1	Unable to operate due to compliance with Federal Guidance	Business Activity levels before Feb 15 th 2020	No	Local guidance must reference in writing that they are following Federal OSHA, HHS or CDC guidance
FTE Reduction Safe Harbor #2	If FTE restored by earlier of Dec 31 st or application submission date	Compared to the pay period including Feb 15 th 2020	No	Then there is no reduction for FTE. <i>Calculated as total average FTE for the borrower</i>

Armanino Can Help You with Forgiveness




What you need to do:

- ✓ Gather your reports
- ✓ Send them to us
- ✓ We'll do the rest

- Loans to \$100K: \$ 1,500
- Loans from \$100K-\$350K: \$ 3,500
- Loans from \$350K-\$2M: \$ 7,500
- Loans over \$2M: \$10,500

Visit learn.armaninollp.com/ppp-forgiveness-support-program



Frequently Asked Questions: Special Situations

Special Situations FAQs

Use of funds questions – Payroll Costs:

1. I am a not-for-profit that receives money in the form of a grant to pay for certain jobs that I have filled. Can I include those wages in my PPP forgiveness?
2. Many of my salespeople earn commissions during the Covered Period, but they won't be paid until later. Can I include those accrued commissions as earned by the employee but not yet paid in my forgiveness calculation?
3. Do I have to spend 60% of my forgiveness expenses on payroll or 60% of my total loan expenses on payroll, or both?
4. What types of tax-deductible ESOP contributions may be considered retirement benefits for forgiveness?
5. How about a defined benefit plan paid at the end of the year as an annual payment?

Use of funds questions – Self-Employment:

6. Owners get paid by K-1 sometimes and not by W-2s, so can we include those payments in calculating our payroll costs for forgiveness purposes?
7. Can you add the amount of employer retirement and health care contributions paid on behalf of the owner-employee?
8. If we have minority owners with less than 5% ownership, do they get included in the owner compensation data?
9. If a stockholder of a C Corp is paid as an employee of the C Corp, can his salary be included in the calculation of PPP forgiveness?
10. Can self-employed owners of more than one business pay themselves in each business?

Special Situations FAQs, Cont.

Use of funds questions – Rent and Utilities:

11. We historically reimbursed our employees for cell phone and home internet access at a flat \$50/month. We increased the reimbursement amount to \$150 under work-from-home. How much can I claim on my forgiveness application?
12. My business pays rent every month to another business that I own which holds the real estate in an LLC. Can I include in my forgivable expenses my related party rent?
13. In December 2019, we signed a new lease agreement with a related party that called for higher rent payments to begin in April 2020. Is this new, higher rent payment eligible for forgiveness?
14. We had to downsize and move to a smaller building in May and our landlord let us out of the lease on the larger space. Is the new lease forgivable due to the downsizing?
15. Do you report your rent payment, net of any sublessee income or do you report the whole amount?

Still Have Questions?



PPP Forgiveness FAQ Library



Email support@theloansource.com



Visit learn.armaninollp.com/ppp-forgiveness-support-program