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PPP LOAN FORGIVENESS OVERVIEW

USER GUIDE

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Contents

INTRODUCTION 3

BEFORE YOU BEGIN 4

GETTING STARTED 5

PAYROLL AND NON-PAYROLL EXPENSES 7

 Payroll Costs 7

 Mortgage Interest Costs 9

 Rent and Lease Costs 9

 Utilities Costs 10

REDUCTION FACTORS 12

OTHER IMPORTANT THINGS TO KNOW 13

NEXT STEPS 14

INTRODUCTION

Welcome to the PPP Loan Forgiveness Overview User Guide.

We have prepared this guide to help you navigate the PPP forgiveness process so you can confidently enter your spend data that determines the accurate forgiveness amount for your PPP loan.

This User Guide is organized into six sections:

- Before You Begin
- Getting Started
- Payroll and Non-Payroll Expenses
- Reduction Factors
- Other Important Things to Know
- Next Steps

There is also a handy Glossary of Key Forgiveness Terms included as an appendix at the end of this User Guide to assist you as you proceed through the forgiveness process and your application.

The forgiveness rules and calculations are extremely complex and very easy to misinterpret. It is important that you take the time to carefully read this User Guide to help you avoid mistakes that could cost you thousands of dollars. We have included several helpful tables throughout this manual to guide you on expenses that are allowed and not allowed to be claimed in your application. By diligently reviewing and following this guide, you will be better prepared to get the total amount of forgiveness that you deserve.

BEFORE YOU BEGIN

A successful forgiveness process experience begins with effective preparation.

Before sitting down to start entering data into the portal, make sure you have the following information available and accessible:

- Payroll records or reports that detail pay for each employee, beginning 1/1/19 through the end of your Covered Period (or Alternative Covered Period if elected), documenting:
 - Hours worked by employee
 - Individual gross compensation before employee deductions
 - Health insurance contributions paid by employer (if contributions are not indicated on payroll report, you will need accounting records or account statements from the provider evidencing payment)
 - Retirement contributions paid by employer (if contributions are not indicated on payroll report, you will need accounting records or account statements from the provider evidencing payment)
- Accounting records and account statements from providers for covered non-payroll expenses showing amounts paid or incurred during the Covered Period
- For mortgage loan accounts, accounting records and account statements or amortization schedule from loan documents showing interest paid or incurred during the Covered Period
- If self-employed:
 - Schedule C from 2019 income tax return (even if not yet filed – do not use 2018 income tax return)
 - Owner’s Income Statement for the Covered Period and evidence of payments to the Owner using PPP funds

Many borrowers use third-party payroll providers such as ADP, Paychex, Paylocity and other platforms, all of whom have employee-level reports you can run that will provide summary data such as “Covered Period Gross Pay”, “Covered Period Average Hourly Wage”, “Lookback Period Average Annual Salary”, etc. These reports may prove useful to the borrower for purposes of estimating your forgiveness, but experience has shown that these reports are often filled with errors. As a result, you should carefully review the accuracy of any summary reports prepared by a third party for purposes of PPP forgiveness, as you will be required to certify the accuracy of all data you input under penalty of law.

GETTING STARTED

Now that you have your documentation by your side, you're ready to familiarize yourself with the PPP Loan Forgiveness process.

The rules around forgiveness have been constantly evolving as the SBA has issued more and more guidance and as new laws are signed into effect. As a result, it is easy to get confused by all the changes, the introduction of new borrower-friendly (but confusing) options and the multiple time periods and thresholds scattered throughout the forgiveness application. Our objective with this User Guide is to help you understand each of these issues in combination with the separate Glossary of Key Forgiveness Terms that is included at the back of the guide.

Let's start with the Covered Period. All your forgiveness begins with the amount of your PPP money that you spent during the Covered Period on authorized expenses (qualifying Payroll Costs plus amounts you spent on Mortgage Interest, Rents/Leases and Utilities). You have two different time periods to choose from: 8 weeks from the date the PPP funds were deposited in your account, or 24 weeks. This is a simple election you make when you complete your forgiveness application – you do not need pre-approval from your lender. The authorized expenses you incur during this Covered Period serves as your "Gross Forgiveness Amount." We'll come back to this shortly.

The next thing to understand is that there are two different ways you can apply for forgiveness: the "Standard" Form 3508 and the "EZ" Form 3508EZ. The EZ form is available to any borrower who can certify that they meet at least one of these three criteria:

1. The borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees at the time of the PPP loan application and had no employee costs included in the calculation of their loan amount.
2. The borrower has no employees who meet the Salary/Hourly Wage Reduction Factor requirement AND had no reductions in the number of their employees or the average paid hours of employees between January 1, 2020 and the end of the borrower's Covered Period.
3. The borrower has no employees who meet the Salary/Hourly Wage Reduction Factor requirement AND was unable to operate during 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.

If you can safely certify that one of the three conditions apply to you, then you can use the EZ form. If not, you will have to use the Standard form. However, notice that the

second and third criteria above involve the Salary/Hourly Wage Reduction Factor, which gets calculated in the Standard Form process anyway. So, let's explore those and the remainder of the Standard Form.

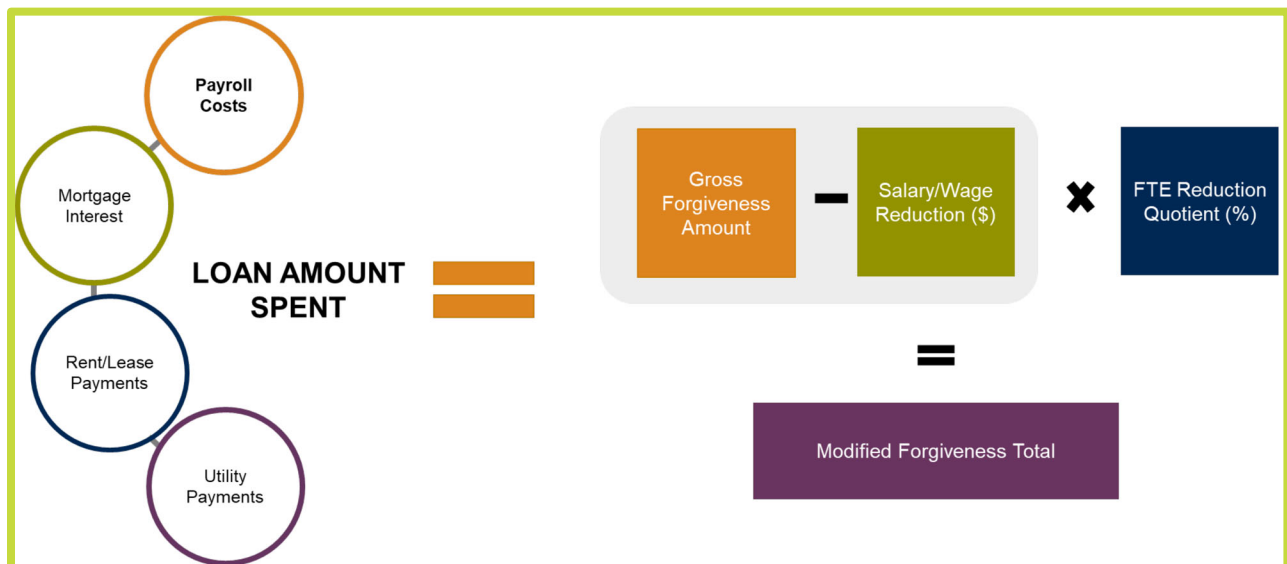
It is very important to know that there are two ways that your "Gross Forgiveness Amount" might be reduced – the Salary/Hourly Wage Reduction Factor and the FTE Reduction Factor.

If you reduced the rate of pay (either annual salary or hourly wage) for any employee by more than 25% during your Covered Period, there is a calculation you will need to do to reduce your forgiveness. This is the Salary/Hourly Wage Reduction Factor, and it gets calculated employee by employee.

The FTE Reduction factor (which stands for Full-Time Equivalent employees), on the other hand, gets calculated in the aggregate across your entire company. Also unlike the Salary Reduction Factor, there is no "grace amount"; any reduction at all in your FTEs will reduce your forgiveness. This is a complicated calculation, so be very careful because it has a very large impact on your loan.

The good news is that both reduction factors have "safe harbors" available, meaning that you can ignore the reduction if you meet certain conditions in the safe harbor rules. But be careful here, too – the relevant dates for safe harbor have absolutely nothing to do with your Covered Period dates or the dates used in the reduction factors.

With all that as background, the math looks like this to get to your "Modified Forgiveness Amount," the amount you can claim on your forgiveness application:



PAYROLL AND NON-PAYROLL EXPENSES

There are four categories of expenses that are authorized uses of PPP funds:

- Payroll Costs
- Mortgage Costs
- Rent and Lease Costs
- Utilities Costs

Each of these categories has rules about what is allowed and what is not an allowable use of the money. In this section, we will explore those rules for each expense item, beginning with Payroll Costs.

Payroll Costs

This is the largest and most important category. PPP rules require that a minimum of 60% of your Forgiveness Amount be used for Payroll Costs, which is to be expected since the prime intent of the program was to keep people employed if possible.

You are entitled to claim the gross pay (before any deductions) you give to your employees, up to an annualized limit of \$100,000 per employee. Depending on the length of your Covered Period, this means a cap of either \$15,385 if you choose an 8-week period (8/52 of \$100,000) or \$46,154 for a 24-week period (24/52 of \$100,000).

In addition to the gross pay, you can also claim the amounts paid by the employer for health insurance, retirement benefits and any State or Local taxes you pay on your employees' compensation. These amounts are not capped like gross pay.

Included in Payroll Costs are the amounts paid to owners and owner-employees, self-employed individuals or partners. The rules are very specific and challenging in this area of Payroll Costs, so proceed cautiously. The key thing to know is that the annualized \$100,000 cap applies to owner's compensation like it does for employees, but the caps for owners are different. For a borrower choosing an 8-week period, the limit that can be forgiven for owners is the smaller of \$15,385 or 8/52 of the owner's 2019 Schedule C Net Income from their Form 1040 tax return. Quite differently from employees, however, the 24-week borrower has a cap of \$20,833 or 2.5 months of the owner's 2019 Schedule C Net Income.

There are several other expenses that, while somewhat related to payroll, are not allowable expenses for forgiveness. The table on the next page is not exhaustive but can serve as a general guide for expenses to include in Payroll Costs.

Table 1: Items that can be Included or Excluded from Payroll Costs

Expense Item	Included	Excluded
Gross salary, wage, commission, tips, bonus or similar compensation (capped at \$100K annualized, or \$1,923/week times # of weeks)	✓	
Self-employment income (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)	✓	
Guaranteed partner payments (capped at \$100K annualized, or \$1,923/week times # of weeks)	✓	
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	✓	
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)		✓

Mortgage Interest Costs

Despite a name that conjures real estate images, this category includes any business asset that carries a secured note, such as vehicle loans or other fixed assets being paid for over time. Any such mortgage must have been in place prior to February 15, 2020.

This category carries a unique distinction in that some costs are allowable, but not forgivable. PPP funds may be used to make the entire payment for mortgage obligations, but only the portion that covers the interest expense is forgivable. Principal payments are to be excluded from your forgiveness application.

The chart below provides examples of expenses that fit into this category.

Table 2: Items that can be Included or Excluded from Mortgage Costs

Expense Item - Real or Personal Property with a Secured Loan	Included	Excluded
Only interest is forgivable, Principal may NOT be included		
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 loan bank fees		✓

Rent and Lease Costs

This category of spending allows the entire amount of cost to be forgiven, not just the portion attributable to interest expense. In addition to costs to rent space in which your business can operate, you are also allowed to apply for forgiveness for costs associated with other leases such as copiers, postage machines or other common leased office equipment. In addition, lease payments for capital equipment can be forgiven.

The chart that follows describes examples of costs that may be included as well as others that do not meet the test and should be excluded from your forgiveness application. As with mortgages, leases must have been in place at February 15, 2020.

Table 3: Items that can be Included or Excluded from Rent and Lease Costs

Expense Item – Real or Personal Property with a Lease	Included	Excluded
Office or storage facility rent <i>(Note: rent portion only on a triple net lease)</i>	✓	
Leased fleet vehicles <i>(lease must be in company's name)</i>	✓	
Leases on company and/or office equipment (including copiers, mail equipment, furniture, computer leases, etc.)	✓	
Parking at an office if separate lease	✓	
Corporate housing lease <i>(lease must be in company's name)</i>	✓	
Property taxes, insurance and CAM on office space, copier/mail machine supplies or per page over standard amounts		✓
Leased employees		✓
Newly leased property since 2/15/20 <i>(including down-sized office)</i>		✓
Parking expenses not covered by a separate lease		✓

Utilities Costs

The final category of forgivable expenses are costs for various utilities necessary to support the business.

In addition to standard utilities like electric service, this category also includes internet access costs and transportation. However, these expenses are limited despite their broad names. There has been virtually no guidance from the SBA indicating what constitutes forgivable transportation costs, other than a single example that related to a discussion on owner's compensation. While it is possible that the SBA may allow more transportation costs than they cited, the chart below limits allowable expenses only to the example used in their guidance.

As with the other non-payroll categories of spend, the Utilities services must have been under contract by February 15, 2020 to qualify for forgiveness.

Table 4: Items that can be Included or Excluded from Utilities Costs

Expense Item	Included	Excluded
Electric bill received 2 days after funding, covering prior service period	✓	
Water, gas, electric services	✓	
Telephone service access	✓	
Employee cell phone reimbursement (<i>only if a standard practice prior to COVID-19 and can be documented</i>)	✓	
Company internet, T-1 or fiber optic lines	✓	
Fuel for vehicles owned or leased by the company	✓	
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		✓
Waste pickup and trash disposal		✓

REDUCTION FACTORS

There are two reduction factors, as described in the “Getting Started” section of this User Guide – the Salary/Hourly Wage Reduction Factor and the FTE Reduction Factor.

Both reduction factors compare pay or hours worked during your Covered Period against a baseline or “look-back” period to determine if a reduction occurred and whether it will count against forgiveness. In the case of the Salary/Hourly Wage Reduction Factor, the comparison is to the first quarter of 2020 (January 1 – March 31). For the FTE Reduction Factor, the borrower gets to choose between one of two baseline periods, either February 15, 2019 – June 30, 2019 or January 1, 2020 – February 29, 2020. There is a third choice available, but only for seasonal employers: any consecutive 12-week period between May 1, 2019 and September 15, 2019. If you are not a seasonal employer, you are limited to choosing between the first two periods for your comparison.

Every employee in your company is counted in determining if there was any FTE reduction. Not so for calculating salary/wage reductions, where before you can identify whether a reduction must be taken you must first identify the employees that are subject to the calculation. You must exclude from the Salary/Wage Reduction Factor calculation any employee who earned over \$100,000 on an annualized basis in any single pay period in 2019 (example: any employee paid more than \$1,923 in any pay period for a weekly payer). For those employees, any amount of salary or wage reduction is permissible. Any employee who stayed under the threshold in every pay period in 2019, as well as any employee hired in 2020 at any level of compensation (even over \$100,000), makes up the set for whom the reduction factor must be calculated.

As noted previously, there are safe harbors available for both factors. The different dates in all these calculations can be confusing, and the safe harbors add to the confusion. In each case, safe harbor is determined first by looking at whether there was a reduction in either FTEs (at the company level) or average salary/wage (employee by employee) during the period from February 15, 2020 through April 26, 2020 as compared to the pay period that included February 15, 2020. If there was a reduction of either during this time frame, the borrower has until the earlier of the date the forgiveness application is filed or December 31, 2020 to restore to the February 15, 2020 level to achieve safe harbor from the reduction factors.

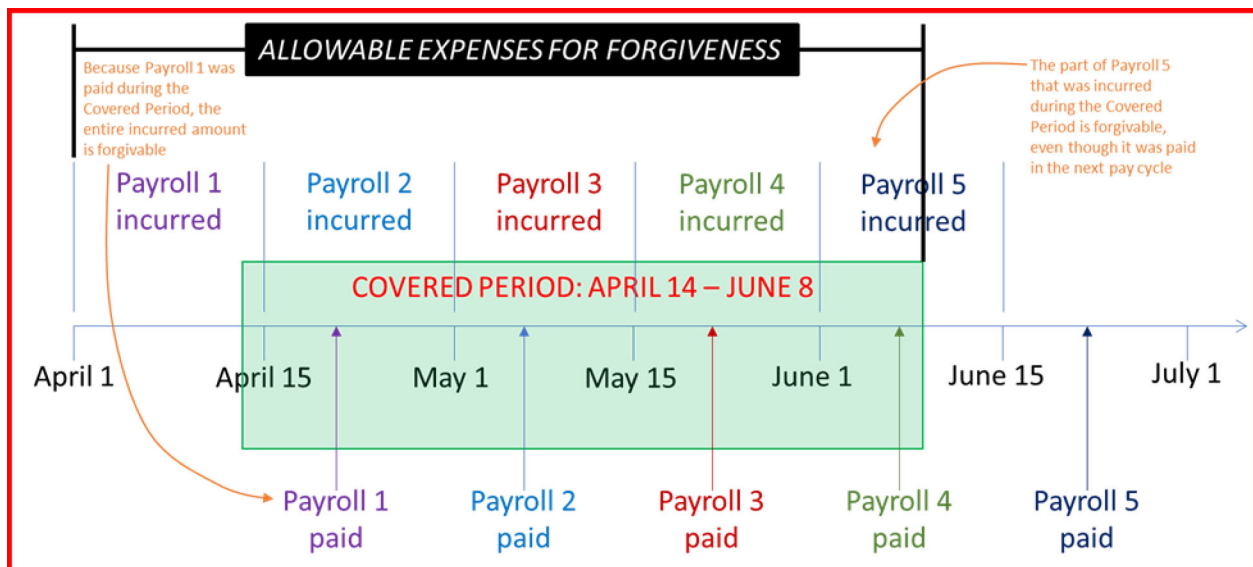
In the case of the FTE Reduction Factor, there is a second path to safe harbor available. If the borrower can demonstrate that, throughout the Covered Period, they were unable to return to levels of business activity that they had prior to February 15, 2020 as a direct result of business restrictions put in place to meet sanitation, social distancing or other such requirements established by the federal agencies HHS, CDCP or OSHA, then safe harbor from the FTE Reduction Factor is available.

OTHER IMPORTANT THINGS TO KNOW

The SBA has consistently interpreted the CARES Act, which established the Paycheck Protection Program, in favor of borrowers to enable maximum forgiveness opportunities. One important step they took was to allow forgiveness for authorized costs that were paid during the Covered Period but not incurred in it, incurred during the Covered Period but paid after it ended, or both incurred and paid during the Covered Period. This substantially expands a borrower's ability to completely expend all PPP funds in the manner intended by Congress.

The chart below illustrates how this works:

Table 5: Incurred vs. Paid Rules



Note in the chart that all of Payroll 1 gets included because all of it was paid in the Covered Period. Conversely, only the incurred part of Payroll 5 that took place before the end of the Covered Period can be included. This applies to both payroll and non-payroll expenses.

It is important to note that any costs incurred before the end of the Covered Period must be paid in the next pay cycle following the end of the Covered Period. While not specifically stated in SBA guidance, the chart above assumes the same “contiguous rule” holds true for costs at the beginning of the Covered Period. As a result, catching up on prior period obligations or pre-paying future period obligations is not allowed.

Another important feature of the forgiveness process is the Alternative Forgiveness Amount. As mentioned in the Payroll Costs section of this guide, at least 60% of the forgiveness amount must be used for payroll. In the event that a borrower fails to meet

this requirement, the Modified Forgiveness Amount will be reduced by limiting the forgiveness of non-payroll costs until the 60/40 ratio is achieved. As an example, a borrower who took out a \$1 million PPP loan, spent it all on authorized costs but only \$540,000 of it on payroll would have a ratio of 54% (540/1000) and fall short of the requirement. The Alternative Forgiveness Amount calculation takes the amount spent on Payroll Costs (\$540,000 in this example) and divides by 0.60 to determine the amount of forgiveness that will be allowed. In our example, dividing \$540,000 by 0.60 yields a total of \$900,000, which becomes the Alternative Forgiveness Amount. In effect, the original non-payroll spend of \$460,000 was reduced to \$360,000 to achieve the necessary ratio.

To determine which amount ultimately gets forgiven, take the lower of the Alternative Forgiveness Amount, the Modified Forgiveness Amount (net of the reduction factors) or the Loan Amount itself.

The other important piece of the PPP program to understand is the option to file for forgiveness prior to the end of the Covered Period. Very little has been written about this to date, as it was only made available on June 22, 2020 in the form of a single sentence deep in a lengthy guidance. However, what is known is that a borrower can file once their PPP money has run out and does not have to wait weeks or months until their Covered Period ends to apply.

If a borrower chooses to file early, it does not change the definition of their Covered Period, which remains either 8 weeks or 24 weeks. If an employee is subject to the Salary Reduction Factor, the weekly reduction beyond the threshold must be multiplied by the full term of the Covered Period despite the early filing. There has been no comparable guidance for the FTE Reduction Factor yet, which suggests that the calculation of this factor can stop once the forgiveness application is filed without regard for the remaining term of the Covered Period. There may be more guidance forthcoming in this regard.

NEXT STEPS

Congratulations! You are well on your way to getting forgiveness for your PPP loan.

If you have questions about any aspect of the forgiveness process, you are strongly encouraged to check the searchable FAQ Library on your lender's website, where over 300 questions are answered. This is your best source for facts about the PPP program and forgiveness.



Glossary of Key Forgiveness Terms

- **Alternative Covered Period:** The Period, if elected, that begins on the first day of the pay period after the borrower receives loan funds. Applicable only to Payroll Costs and available only to businesses that regularly pay employees on either a weekly or bi-weekly basis.
- **Baseline Period:** (see Look-Back Period)
- **Covered Period:** Either the 8-week or the 24-week period beginning on the loan disbursement date and ending no later than December 31st, 2020.
- **Employees:** Staff paid via payroll for whom the borrower files payroll tax forms. These can be either full-time or part-time employees
- **Employer-Paid:** Costs paid by the employer for fringe expenses (specifically excludes amounts withheld from Gross Pay and paid to a third party on behalf of the employee)
- **EZ Form:** Loan Forgiveness Application Form 3508EZ, a shorter forgiveness application form available to borrowers who meet one of three specific criteria
 - Self-employed individuals with no staff
 - Borrowers who did not reduce salary or hourly wage of any person earning less than a \$100,000 annualized wage by more than 25% **and** did not reduce the number of employees or average number of paid hours between January 1, 2020 and the end of their chosen Covered Period
 - Borrowers who did not reduce salary or hourly wage of any person earning less than a \$100,000 annualized wage by more than 25% **and** the borrower was unable to return to operate at pre-pandemic business levels (pre-February 15, 2020) due to compliance with government requirements for reduced business activity due to COVID-19
- **FTE Exception:** Employees who are excluded from the FTE and Salary Reduction Factors because they meet specific and documented criteria for exemption qualification
- **FTE Reduction Factor:** Any reduction in staff, based on an average 40-hour Full Time Equivalent work week, as compared to the borrower's chosen look-back period
- **FTE Reduction Quotient:** The number used to multiply the difference between the Forgiveness Amount and the Salary Reduction Factor, expressed as the inverse of the reduction
- **FTE:** 40-hour work week basis used to determine the number of Full Time Equivalent staff
- **Government requirements for reduced business activity:** Statements made by the Centers for Disease Control and Prevention (CDC), Dept of Health and Human Services (HHS) or the Occupational Safety and Health Administration (OSHA) that local jurisdictions relied upon in writing to issue similar orders which restricted commerce
- **Gross Pay:** Wages, salaries, commissions, vacation, sick pay, separation or similar compensation before employee tax and benefit deductions.
- **Inability to Return to Pre-February 15, 2020 Levels of Business Activity:** A borrower's inability to operate at pre-pandemic business levels due to compliance with government requirements or guidance issued between March 1st and December 31st, 2020. Note that this is not the same as a business that experienced a reduction in business activity, but rather means that the business was prevented from returning from that reduction due to documented federal requirements for sanitation, social distancing, etc.
- **Incurred:** Expenses that occurred during the loan Covered Period, whether paid during the Covered Period or not (example: hours worked but not yet paid)
- **Interest:** Amount paid in excess of principal for the use of money borrowed

- **Lease:** Amount paid for business equipment leases documented by an agreement that was in place prior to February 15, 2020
- **Loan Origination Date:** Date funds are disbursed to borrower.
- **Look-Back Period:** The various comparison periods used in calculating either Salary or FTE Reduction Factors
- **Medical:** Amounts paid by employers for employee health plans (health, dental or vision)
- **Mortgage:** Amount paid for principal (allowed use of PPP funds but not forgivable) and interest (allowed and forgivable) when a business owns the real estate in which the business is conducted, so long as the mortgage was in place prior to February 15, 2020
- **Non-Payroll Costs:** Mortgage interest, rent, lease expenses, and utilities
- **Owner's Compensation:** Amounts paid to Owners, Owner-Employees, Partners and Self-employed individuals
- **Paid:** Cash disbursed in the loan Covered Period (which may or may not have been incurred during the Covered Period)
- **Pay Cycle Frequency:** A borrower's weekly, bi-weekly (every two weeks), semi-monthly (two times per month, generally the 15th and last day of the month) or monthly payroll cycle
- **Payroll Costs:** Gross pay up to an annualized maximum of \$100,000 per US employee, plus the employer's cost of providing employee healthcare and retirement benefits, plus the cost of employer-paid state and local payroll taxes (but excluding federal employer tax costs and FFCRA paid leaves), plus allowable owner's compensation
- **Rent:** Amount paid for office and business space documented by a rental agreement that was in place prior to February 15, 2020
- **Retirement:** Amounts paid by the employer to fund employee retirement plans
- **Safe Harbors:** Various provisions in the PPP Loan or Loan Forgiveness applications that reduce or eliminate legal or regulatory liability of the borrower if prescribed conditions are met
 - Borrower's good faith certification as to eligibility for PPP loans if that borrower has a loan amount of less than \$2 million
 - Granted to those who repaid borrowed amounts in full prior to May 17, 2020 indicating they were ineligible to participate in the PPP
 - Granted to those borrowers who can document exemption from a variety of FTE and Salary reduction factors due to specific circumstances beyond their control
- **Salary Reduction Factor:** Any Salary or Hourly Wage reduction amount exceeding 25% of any single employee in the Covered Period as compared to the January 1 – March 31st, 2020 pay period, calculated by employee at a weekly rate, then multiplied by the number of weeks in the selected Covered Period
- **Standard Form:** Loan Forgiveness Application Form 3508
- **State and Local Taxes:** Employment taxes required to be paid by the employer and directly related to employee compensation
- **Transportation:** Costs of fuel for company-owned vehicles
- **Utilities:** Water, Gas, Electric, Internet connectivity, Telephone and Transportation costs



Thank you!