SBA FORGIVENESS FORM 3508 – MAXIMIZING PPP LOAN FORGIVENESS
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The SBA and Treasury - key clarifications include:

• Rather than the 8-week covered period beginning upon loan disbursement, recipients can choose to use an “Alternate Payroll Covered Period” that better aligns with the company’s regular bi-weekly period.

• Approved expenses may be both paid or incurred during the 8-week period.

• Full-time equivalent (FTE) employees are calculated based on a 40-hour work week.

• Forgiveness will not decrease for FTE reduction if:
  • Fired by cause
  • Voluntarily resigned or reduced hours
  • Rehire attempt was denied
CONTINUED...

IMPORTANT: MAY 2020 UPDATES

• Any of the occurrences mentioned on the prior slide must be documented, including any denial of a rehiring offer.
• For forgiveness calculations, wages will be compared to January 1, 2020 – March 31, 2020.
• PPP loans less than $2 million will be exempt from audits and assumed to have been made in good faith.
Paycheck Protection Program Flexibility Act

Passed by the House – Not Law – Senate Vote?

- Extension of the **period to use funds from 8 weeks to the earlier of 24 weeks or December 31, 2020**
- A decrease in the required use of funds for payroll from 75% to 60%
- Deferment of payroll taxes for those who receive loan forgiveness
- Extension of June 30 rehiring deadline to December 31, 2020
- Increased leeway on loan forgiveness for demonstrating rehiring challenges or reopening challenges including:
  - Inability to rehire an individual who was an employee as of February 15, 2020
  - Inability to hire similarly qualified employees on or before December 31, 2020
  - Inability to return to the same level of business activity prior to February 15, 2020
  - Increased of minimum loan maturity to 5 years
PPP LOAN PROGRAM
GENERAL ITEMS

• Expenses “incurred and “payments made”. And really means or.
• Loan Forgiveness Income is it federally taxable income? It is not federally taxable income.
• The payroll that paid and is used in the forgiveness process – Can you use it for tax deductions? No – will it be repealed?
• The forgiveness process is with the bank/lending institution. Banks may have additional steps/backup required for forgiveness.

IRS has now said, “NO”
Loan Forgiveness Application

SBA Form 3508 - This form is now available on the SBA website. It must be completed and turned into the lender for forgiveness consideration.

Forgiveness application is available here:
https://www.sba.gov/sites/default/files/2020-05/3245-0407%20SBA%20Form%203508%20PPP%20Forgiveness%20Application.pdf
APPROVED PPP LOAN USES

The SBA has limited the expenses for which PPP loan funds can be used and consequentially forgiven.

NOTE: Mortgage interest, other interest, rent, and utilities must all have been in place before Feb. 15, 2020.

- PAYROLL COSTS
  Expenses qualifying as payroll costs – W-2 payroll, employee retirement benefits. -75% - Payroll Bucket

- HEALTH CARE BENEFITS
  This includes paid sick, medical, and family leave as well as insurance premiums. -75% Payroll Bucket

- MORTGAGE INTEREST REAL AND PERSONAL PROPERTY - 25% BUCKET

- RENT/LEASE PAYMENTS FOR REAL AND PERSONAL PROPERTY – 25% - BUCKET

- UTILITY PAYMENTS - 25% - BUCKET
Eligible and Ineligible Payroll Costs

**Eligible Payroll Costs Include:**
- Employee compensation, up to $100,000 per employee
- Payment for vacation, parental, family, medical, or sick leave
- Allowance for dismissal or separation
- Group health care benefits, including insurance premiums
- Any group retirement benefits
- Statement of state or local tax assessed on employee compensation.

**Costs Not Eligible Include:**
- Any compensation of an employee whose principal place of residence is outside of the United States
- Payments made to independent contractors (1099)
- The compensation of an individual employee in excess of an annual salary of $100,000, prorated as necessary.
- Federal employment taxes paid by the employer (Social Security and Medicare ER Matching).
- Qualified sick and family leave wages for which a credit is allowed under the Families First Coronavirus Response Act.
Eligible nonpayroll costs. Nonpayroll costs eligible for forgiveness consist of:

(a) covered mortgage obligations: payments of interest (not including any prepayment or payment of principal) on any business mortgage obligation on real or personal property incurred before February 15, 2020 ("business mortgage interest payments");

(b) covered rent obligations: business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020 ("business rent or lease payments"); and

(c) covered utility payments: business payments for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020 ("business utility payments").
LOAN FORGIVENESS CALCULATION

• STEP 1 Calculated Total Allowable Costs.
  • Bucket 1 – Payroll Expenses – 75%
  • Bucket 2 – Other Approved Expenses 25%

• Safe Harbor – no Step 2 or Step 3 Reduction

• STEP 2 Calculate Salary Reduction.

• STEP 3 Calculate Headcount Reduction.
Alternative Payroll Covered Period: For administrative convenience, Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date (the “Alternative Payroll Covered Period”). For example, if the Borrower received its PPP loan proceeds on Monday, April 20, and the first day of its first pay period following its PPP loan disbursement is Sunday, April 26, the first day of the Alternative Payroll Covered Period is April 26 and the last day of the Alternative Payroll Covered Period is Saturday, June 20.

An eligible nonpayroll cost must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period. Eligible nonpayroll costs cannot exceed 25% of the total forgiveness amount. Count nonpayroll costs that were both paid and incurred only once.
STEP 1

TOTAL ALLOWABLE COSTS CALCULATION

Maximum Forgiveness Amount

Total Allowable Costs Calculation Principal forgiven in an amount equal to the following costs incurred during the eight weeks after the loan is originated:

75% - Expense
- Payroll costs – has to be at least 75% of the total
- W-2 pay, health insurance, retirement benefits, state payroll taxes

25% Expenses – contracts or loans prior to 2/15/2020
- Mortgage interest on Real Property
- Mortgage Interest on Personal Property
- Rent/lease – Real and Personal Property, capital leases?
- Utilities – heat, power, water, internet, telephones, Transportation
**PPP Loan Forgiveness Calculation Form**

<table>
<thead>
<tr>
<th>Business Legal Name (“Borrower”)</th>
<th>DBA or Tradename, if applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Address</td>
<td>Business TIN (EIN, SSN)</td>
</tr>
<tr>
<td></td>
<td>Business Phone</td>
</tr>
<tr>
<td></td>
<td>Primary Contact</td>
</tr>
<tr>
<td></td>
<td>E-mail Address</td>
</tr>
</tbody>
</table>

**SBA PPP Loan Number:** ________________  **Lender PPP Loan Number:** ________________

**PPP Loan Amount:** ________________  **PPP Loan Disbursement Date:** ________________

- **Employees at Time of Loan Application:** ________________
- **Employees at Time of Forgiveness Application:** ________________
- **EIDL Advance Amount:** ________________  **EIDL Application Number:** ________________

**Payroll Schedule:** The frequency with which payroll is paid to employees is:

- [ ] Weekly
- [ ] Biweekly (every other week)
- [ ] Twice a month
- [ ] Monthly
- [ ] Other ________________

**Covered Period:** ________________ to ________________

**Alternative Payroll Covered Period, if applicable:** ________________ to ________________

**If Borrower (together with affiliates, if applicable) received PPP loans in excess of $2 million, check here:** [ ]

**Forgiveness Amount Calculation:**

- **Payroll and Nonpayroll Costs**
  - Line 1: Payroll Costs (enter the amount from PPP Schedule A, line 10):
  - Line 2: Business Mortgage Interest Payments:
  - Line 3: Business Rent or Lease Payments:
  - Line 4: Business Utility Payments:
Step 2 and Step 3 Exemption
Safe Harbor Strategy

An exemption is granted for both the Reduction in FTEE and reduction in Salary and wages if the following apply:

1. If the **total FTEE reduction** between **Feb 15, 2020 and April 26, 2020** is restored no later than **June 30, 2020**.

2. If the **total salaries or wages reduction** between **Feb 15, 2020 and April 26, 2020** is restored no later than **June 30, 2020**.
SBA Form 3508 – Safe Harbor – Exemption from Steps 2 and 3 Reductions

**FTE Reduction Safe Harbor**

A safe harbor under applicable law and regulation exempts certain borrowers from the loan forgiveness reduction based on FTE employee levels. Specifically, the Borrower is exempt from the reduction in loan forgiveness based on FTE employees described above if both of the following conditions are met: (1) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (2) the Borrower then restored its FTE employee levels by not later than June 30, 2020 to its FTE employee levels in the Borrower’s pay period that included February 15, 2020.
SBA Form 3508 – Reductions

Adjuncents for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions
Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):

Potential Forgiveness Amounts
Line 8. Modified Total (multiply line 6 by line 7):

Line 9. PPP Loan Amount:

Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):

Forgiveness Amount
Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

SBA Form 3508 (05/20)
Page 3
## Paycheck Protection Program
### Loan Forgiveness Application

**PPP Schedule A**

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula/Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Enter Salary/ Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:</td>
<td>If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee’s average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here □ and enter 0 on line 3.</td>
</tr>
</tbody>
</table>

### PPP Schedule A Worksheet. Table 2 Totals

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula/Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:</td>
<td></td>
</tr>
</tbody>
</table>

### Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula/Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Total amount paid by Borrower for employer contributions for employee health insurance:</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Total amount paid by Borrower for employer contributions to employee retirement plans:</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Total amount paid by Borrower for employer state and local taxes assessed on employee compensation:</td>
<td></td>
</tr>
</tbody>
</table>
Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners:
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is
more than one individual included, attach a separate table that lists the names of and
payments to each.

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9):

Full-Time Equivalency (FTE) Reduction Calculation
If you have not reduced the number of employees or the average paid hours of your employees between
January 1, 2020 and the end of the Covered Period, check here ☐, skip lines 11 and 12 and enter 1.0 on line 13.

Line 11. Average FTE during the Borrower’s chosen reference period:

Line 12. Total Average FTE (add lines 2 and 5):

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met:

SBA Form 3508 (05/20)
Page 6
Step 2 Salary Reduction Calculation – Over 25% Reduction

For each employee earning less than $100K...

The amount of loan forgiveness will be reduced by the amount of a reduction in total salary or wages of an employee during the covered period that is in excess of 25% of the total salary or wages of the employee during the most recent full quarter during which the employee was employed.

For example...

If (Q1 2020 payroll costs) x 75% > 8-week payroll cost...

You must reduce forgiveness by the dollar amount difference for each employee.
Step 3 Headcount Reduction Calculation

REDUCTION BASED ON DECREASE IN NUMBER OF EMPLOYEES

FTE = 40 hours per week

Average Number of Full-Time Equivalent Employees (FTEEs) per month* for covered 8-week period

Average Number of FTEEs per month of either:
1. 02/15/2019 – 06/30/2019**
2. 01/01/2020 – 02/29/2020

* Average FTEE = average FTEE for each pay period falling within a month
**Seasonal Business must choose Option 1
Form 3508 – FTE Reduction Calculations - Document

**Average FTE:** This calculates the average full-time equivalency (FTE) during the Covered Period or the Alternative Payroll Covered Period. For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower.

**FTE Reduction Exceptions:** Indicate the FTE of (1) any positions for which the Borrower made a good-faith, written offer to rehire an employee during the Covered Period or the Alternative Payroll Covered Period which was rejected by the employee; and (2) any employees who during the Covered Period or the Alternative Payroll Covered Period (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested and received a reduction of their hours. In all of these cases, include these FTEs on this line only if the position was not filled by a new employee. Any FTE reductions in these cases do not reduce the Borrower’s loan forgiveness.
The following slides will outline our recommendations for tracking spending in order to maximize loan forgiveness.
Document, Document, Document and Document some more

EMPLOYMENT + WAGES DOCUMENTATION

Documentation verifying the number of employees on payroll and their pay rates, including IRS payroll tax filings and state income, payroll, and unemployment filings.

RECEIPTS + INVOICES

Documentation verifying payments on mortgage interest, other interest payments, rent, and utilities. Utilities include electricity, gas, water, transportation, and telephone + internet access.

OFFICIAL CERTIFICATION

Certification from an organization representative that can verify that all documentation is true and in accordance with PPP guidelines.
ADD SUPPORTING DOCUMENTATION

• In addition to keeping a well-organized spreadsheet of expenses and payroll costs, acquire additional documentation to validate the expenses. These can include:
  • IRS payroll tax filings
  • Mortgage/rent agreements
  • Utility accounts in the business’ name
  • Previous tax returns
Documents that Each Borrower Must Submit with its PPP Loan Forgiveness Application

PPP Loan Forgiveness Calculation Form

PPP Schedule A

Payroll for your Covered Period:

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 (PPP Schedule A, lines (6) and (7)).
Documents that Each Borrower Must Submit with its PPP Loan Forgiveness Application Payroll

**FTE: Documentation** showing (at the election of the Borrower):

a. the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019;

b. the average number of FTE employees on payroll per month employed by the Borrower between January 1, 2020 and February 29, 2020; or

c. in the case of a seasonal employer, the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve-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.
Documents that Each Borrower Must Submit with its PPP Loan Forgiveness Application – 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.
BUILD A TRACKING TOOL for Forgivable Expenses

As soon as loan funds are disbursed, or even before, create an Excel spreadsheet that outlines:

• List of employees from 2019 and dates employed
• 2019 wage levels for each employee
• Full list of current employees
• Wage levels for each employee
• Track and Project other 25% bucket expenses

Back up all of this data with statements and invoices from your payroll and accounting system. Keep these records in one place.
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