



**WEBINAR
NOV 04**

PPP Loan Program Deductible Expenses and Forgiveness Applications



Agenda



Welcome and SKR+CO Overview



PPP Loan Program Overview



Deductible Expenses



PPP Loan Forgiveness Applications



Q+A

Today's Speakers



Jordan Empey, CPA

Tax Partner



Jennifer Carter, CPA

Senior Tax Consultant



Stockman Kast Ryan + Company



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PPP Loan Program

Maximizing loan forgiveness

Congressional Changes in the PPP Flexibility Act

One	Two	Three	Four	Five
Maturity for loans with remaining balance after application for forgiveness changed from two years to five years.	Extension of the covered period changed from 8 weeks and June 30, 2020 to 24 weeks or Dec 31, 2020, whichever is earlier.	Exemptions based on employee availability, extends timeframe on rehiring FTEs to December 31, 2020.	Limitation on forgiveness on non-payroll costs changed from 75/25 to 60+/40 , but new caveats apply.	Delay of payment of employer payroll taxes.



PPP Deductible Expenses

What qualifies as deductible?

Deductibility of PPP Expenses

- **IRS guidance (Notice 2020-32)** explains a taxpayer who received loan proceeds through the Paycheck Protection Program would not be permitted to take deductions to the extent that the expenses were reimbursed by a PPP loan that was later forgiven.
- **The CARES Act itself is silent regarding deductions being allowed after a covered loan is subsequently forgiven.**
- **The AICPA has supported a bill called the Small Business Expenses Protection Act of 2020** that would allow expenses covered by PPP loans to be fully deductible expenses.

PPP Expenses – What we're Waiting for

- No deduction is allowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a PPP Loan when the income associated with the forgiveness is excluded from gross income.
- If Congress enacts further legislation regarding the treatment of PPP loan forgiveness or the deductibility of related expenses, we will provide guidance at that time.

Thought-leadership: When to Apply?

- It depends!
- The Heroes Act, introduced in May 2020
 - Passed the House in May 2020
 - Responds to the COVID-19 outbreak and its impact on the economy, public health, state and local governments, individuals and businesses.
 - Provides that any deduction shall be determined without regard to whether any amount is excluded from gross income.
 - Pending action from the Senate.



Thought-leadership: When to Apply?

No deduction is allowable in 2020 unless Congress enacts legislation in 2020 to allow the deduction (The Heroes' Act)

- Borrower spends PPP loan proceeds in 2020 on eligible expenditures and receives approval of loan forgiveness in 2020
- Borrower's PPP loan is \$150,000 or less, and the PPP money is spent in 2020 on eligible expenditures, forgiveness application is approved in 2021.
- PPP Loans over \$2 million are subject to audit requirements and may be able to influence when deductions occur. It will be particularly important for businesses in this situation to consult a tax advisor.



To Consider



- Cash vs. Accrual
- Higher tax rates in 2021
- Future legislation



PPP Loan Applications

Which form works best for you

Three Types of PPP Loan Forgiveness Applications

1. 3508EZ – Eligibility checklist
2. 3508S – \$50k
3. SBA Form-3508 – full application

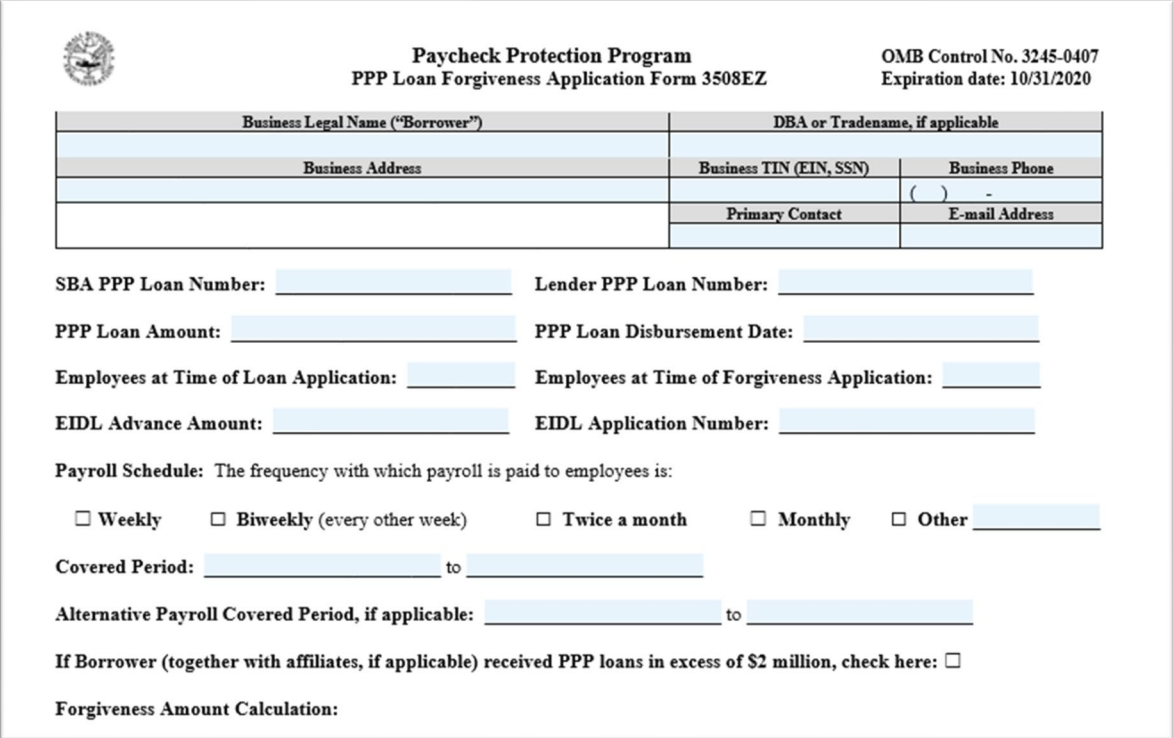
Question: The PPP loan forgiveness application forms (3508, 3508EZ, and 3508S) display an expiration date of 10/31/2020 in the upper-right corner. Is October 31, 2020 the deadline for borrowers to apply for forgiveness?

Answer: No. Borrowers may submit a loan forgiveness application any time before the maturity date of the loan, which is either two or five years from loan origination.

SBA Form 3508EZ

- **Question:** Which loan forgiveness application should sole proprietors, independent contractors, or self-employed individuals with no employees complete?

Answer: Sole proprietors, independent contractors, and self-employed individuals who **had no employees** at the time of the PPP loan application and **did not include any employee salaries** in the computation of average monthly payroll in the Borrower Application Form.



The image shows the SBA Form 3508EZ, titled "Paycheck Protection Program PPP Loan Forgiveness Application Form 3508EZ". It includes the SBA logo and OMB Control No. 3245-0407 with an expiration date of 10/31/2020. The form is divided into several sections for data entry:

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		() -	
		Primary Contact	E-mail Address

Below the table, there are fields for:

- 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:

[Loan Forgiveness Application Form 3508EZ](#)
or lender equivalent

SBA Form 3508EZ

Use if the borrower can check **one of the three boxes** described below. The three boxes are:

Box One

Borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees at the time of the PPP loan application and did not include any employee salaries in the computation of average monthly payroll in their application.

Box Two

Borrower did not reduce annual salary or hourly wages of any employee by more than 25% during the Covered Period or the Alternative Payroll Covered Period compared to the period between January 1, 2020 and March 31, 2020; AND 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.

Box Three

Borrower did not reduce annual salary or hourly wages of any employee by more than 25% during the Covered Period or the Alternative Payroll Covered Period compared to the period between January 1, 2020 and March 31, 2020; AND the borrower 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.

SBA Form 3508S


- A borrower may use Form 3508S only if the total PPP loan amount received was \$50,000 or less.
- However, a borrower that, together with its affiliates (as defined by the PPP loan program) received PPP loans totaling \$2 million or more may not use this Form.
- If a borrower is not eligible to use this form, the borrower must apply for forgiveness using Form 3508 or Form 3508EZ.

Paycheck Protection Program PPP Loan Forgiveness Application Form 3508S		OMB Control No. 3245-0407 Expiration date: 11/30/2020
A BORROWER MAY USE THIS FORM ONLY IF THE BORROWER RECEIVED A PPP LOAN OF \$50,000 OR LESS. A Borrower that, together with its affiliates, received PPP loans totaling \$2 million or greater cannot use this form.		
Business Legal Name ("Borrower")		DBA or Tradename, if applicable
Business Address		Business TIN (EIN, SSN)
		Business Phone () -
		Primary Contact
		E-mail Address
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:
Forgiveness Amount:		

[Loan Forgiveness Application Form 3508S](#)
or lender equivalent

SBA Form 3508

- FTE Calculations
- Reductions in pay calculations
- Time-consuming
- Recommend consulting your tax advisor

 **Paycheck Protection Program**
Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 11/30/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")	DBA or Tradename, if applicable	
Business Address	Business TIN (EIN, SSN)	Business Phone
	Primary Contact	E-mail Address

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 _____

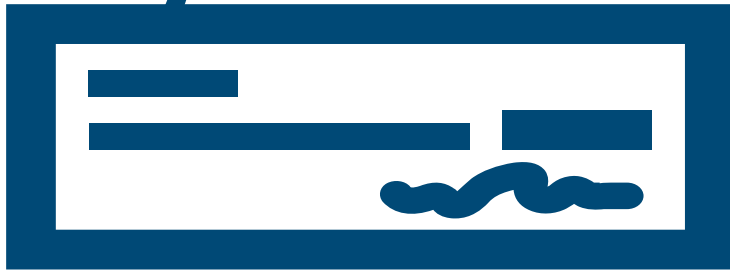
Alternative Payroll Covered Period, if applicable: _____ to _____

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

[Loan Forgiveness Application Form 3508](#) or
lender equivalent

Documents for Submission with Application

Payroll



- Bank account statements and third-party payroll reports showing cash compensation paid to employees.
- Tax forms for periods that overlap the Covered Period or the Alternative Payroll Covered Period.
 - Federal payroll tax filing Form 941 and other state quarterly forms for wage reporting and unemployment insurance
- All payment receipts, cancelled checks or account statements that document employee contributions for health insurance, retirement plans.

Documents for Submission with Application Cont.



FTEs (Full Time Employees) calculations

- Average number of FTE employees on payroll per month employed between February 15, 2019 and June 30, 2019;
 - Average number of FTE employees on payroll per month employed between January 1, 2020 and February 29, 2020; or
 - Seasonal employers may use the average number of FTE employees based on the two options above or any consecutive 12-week period between May 1, 2019 and September 15, 2019
-
- **Same time period selected should be used on Schedule A, Line 11 of application.**
 - **Documents may include payroll tax filings to the IRS and various states.**

Documents for Submission with Application, Cont.

Nonpayroll



Includes verification of existence prior to February 15, 2020 and eligible payments during the Covered Period.

- **Business mortgage interest** — copy of lender amortization schedule, receipts or cancelled checks verifying payments, or lender account statements from February 2020 through one month after the Covered Period showing interest expense and payments
- **Business rent/lease payments** — copy of current lease agreement, receipts and cancelled checks for payments, or lessor account statements from February 2020 through one month after the Covered Period showing eligible payments
- **Business utility payments** — copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements showing eligible payments

Other Documents to Maintain but Not Submit

- **PPP Schedule A Worksheet**
 - Info for everyone listed on Table 1 of Salary/Hourly Wage Reduction
 - Info for everyone listed on Table 2, specifically individuals with annualized wages exceeding \$100k
 - All documentation regarding employee job offers, refusals, firings for cause, voluntary resignations and written requests for reduced hours
 - All documentation supporting FTE Reduction Safe Harbor
- **All record relating to obtaining the PPP loan**
 - Original loan application, certifications for eligibility, documents for forgiveness and material demonstrating compliance with PPP requirements
- **Retain all documents for *six years* after the date the loan is forgiven or repaid in full as the SBA may request files at a later date**

PPP Forgiveness Support Team



You have questions.

We have answers.

- Reviewing or completing applications
- Preparing or reviewing calculations
- Minimizing forgiveness reductions
- Understanding documentation rules
- Balancing EIDL + PPP programs
- Layering PPP with FMLA + unemployment
- Maximizing federal and local relief funding
- Determining exit strategies
- Timing rehires and loan repayments
- Forecasting for business continuity
- Planning for post-COVID cashflow



PPP FORGIVENESS SUPPORT TEAM

When every business is different, every question is unique and every answer is essential to meeting strict guidelines, feel confident turning to your team of experts well-versed in the latest business recovery information.

Team members include:

- Jordan Empey, Tax Partner
- Jason Raak, Tax Manager
- Jennifer Carter, Senior Tax Consultant

For assistance with PPP loan programs or other business relief initiatives tied to COVID-19 interruptions, please contact 719.630.1186 or communications@skrco.com.

Question + Answer



Thank you

Nov 10 | Selecting the Correct PPP Loan Forgiveness Application

Presented by Jordan Empey, Jennifer Carter



Go to www.skrco.com/webinars for webinar materials.