

Strategies for PPP Loan Forgiveness

Thursday, August 6, 2020



CPAs & ADVISORS

Richard J. Locastro,
CPA, JD
*Partner and Director,
Nonprofit Tax*

Amy Boland,
CPA
*Partner,
Audit*

Elinor Litwack,
CPA
*Partner,
Outsourced Accounting & Advisory Services*

Troy Turner,
CPA
*VP, Partner & Director,
Tax*

Gelman, Rosenberg & Freedman CPAs is now GRF CPAs & Advisors



Please note our new address:

4550 Montgomery Avenue, **Suite 800N**, Bethesda, MD 20814

Housekeeping

CPE Credit/Technical Support

- **Important:** Three (3) CPE words will be provided during the presentation. Please write them down – **we will not provide them again via GoToWebinar or email (no exceptions).**
- Please complete the electronic survey that will appear automatically at the **end of the webinar.**
- Attendees seeking CPE for this presentation must complete the survey and **enter all three CPE words.** You cannot claim CPE unless we receive a completed evaluation with the correct words.
- This presentation will be recorded and made available to download at www.grfcpa.com/webinars.
- Technical questions about the survey can be addressed to Nathan McElveen at nmcelveen@grfcpa.com.

Housekeeping

Additional Information

Learning Objective To provide practical guidance on PPP loan forgiveness	Instructional Delivery Methods Group Internet-based
Recommended CPE 1.5 CPE Credits	Recommended Fields of Study Accounting – Technical
Prerequisites None required	Advance Preparation None
Program Level Basic	Course Registration Requirements None
Refund Policy No fee is required to participate in this session.	Cancellation Policy In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.
Complaint Resolution Policy GRF CPAs & Advisors is committed to our participants' 100% satisfaction and will make every reasonable effort to resolve complaints as quickly as possible. Please contact kdavis@grfcpa.com with any concerns.	
Disclaimer This webinar is not intended as, and should not be taken as, financial, tax, accounting, legal, consulting or any other type of advice. Readers and users of this webinar information are advised not to act upon this information without seeking the service of a professional accountant.	

Presenters

Meet the Instructors



Richard J. Locastro, CPA, JD

Partner & Director | Non Profit Tax



Amy Boland, CPA

Partner | Audit



Elinor Litwack, CPA

Partner | Outsourced Accounting and Advisory Services



Troy Turner, CPA

VP, Partner & Director | Tax

Agenda

- **Guidance on PPP Funding**
- **Forgiveness Application Guidance**
- **PPP Loans and 990 Disclosure**
- **Q&A**

A dense, overlapping background of various US coins, including pennies, nickels, dimes, and quarters, in shades of copper and silver. The coins are scattered across the entire frame, creating a textured, metallic appearance.

Guidance on PPP Funding

SBA Statistics

- New Deadline to apply for PPP funding is August 8, 2020
- Summary of cumulative Paycheck Protection Program data as of 5:00 PM EDT on August 5, 2020.

Approved Loans
5,136,072

Approved Dollars
\$522,760,120,440

Average Loan Size
\$101,782

of Participating Lenders
5,461

Paycheck Protection Program Flexibility Act of 2020

- Extend the time in which businesses must use the funds from eight weeks to 24 weeks (if received loan prior to June 5th may use 8 or 24 weeks)
- Amend the 75/25 rule to 60/40 for how much businesses must spend on payroll versus non-payroll costs
- Push back the deadline to rehire workers from June to December and eases the rehire requirements
- Extend the two-year term for the loans to five years on/after June 5th
 - Prior loans- the borrower and lender can mutually agree to extend to five years
- Extension of deferral period for principal, interest and fees until date on which amount of forgiveness is determined

How Should I Record My PPP Funding?

1) Financial Liability under FASB ASC Topic 470




- Loan
- Accrue interest
- Continues as liability until
 - Partially or wholly forgiven (legally released from debt)
 - Pay off the loan
- Amount forgiven is a gain on extinguishment



How Should I Record My PPP Funding?

OR, if NFP concludes it is a grant that is expected to be forgiven then:

2) Conditional contribution under ASC Subtopic 958-605

- Refundable advance
- Right of Return/Barrier
- Barriers
 - 1) Incur qualifying expenses 
 - 2) FTE reduction/25% wage reduction 
 - 3) Review and approval – is this administrative or a barrier 
- If the NFP concludes #3 is administrative – book refundable advance and recognize revenue accordingly

How Should I Record My PPP Funding?

- Other Tips
 - Conservative approach—loan
 - PPA risk if revenue is recorded and then not wholly forgiven
 - Still uncertainty on forgiveness pending additional guidance
 - Double dipping not allowed (specifically stated by OMB for federal awards in M-20-26)



How Should I Record My PPP Funding?



- Other Tips
 - Lender has 60 days to issue a decision
 - SBA has 90 days to remit forgiveness amount to lender
 - Year end is important for approach – 9/30 and 12/31's have time to decide
 - June 30—could be more of a crucial decision
 - AICPA/Journal of Accountancy – DO NOT RUSH TO FILE FOR FORGIVENESS—situation too dynamic
 - Regardless of treatment—DISCLOSURES WILL BE IMPORTANT

Polling Question #1

As a result of the PPP Flexibility Act, have you opted for an 8 week or 24 week forgiveness period?

- A. *8 week*
- B. *24 week*
- C. *Unsure*

Forgiveness Application Guidance

Status on Forgiveness Applications

- SBA and Treasury still working on final guidance
- Bank portals not active yet
- Forgiveness Application may still be amended
- Organizations should continue to project but not rush to apply for forgiveness
- Borrowers electing 24 week period can apply before the end of the covered period

Maximizing Loan Forgiveness

- Spend 60 % - 100 % of the loan on qualifying payroll costs (payroll + benefits)
- Spend 0% - 40% of the loan on qualifying non-payroll costs (e.g. mortgage interest, rent, utilities)
- Maintain salary levels: Employees earning <\$100K with salary reductions over 25% will reduce forgiveness
- Maintain full time equivalents (FTEs): Headcount reductions that don't fall under the safe harbor reasons will reduce forgiveness



FTE Reduction Exceptions (Individual Employee Reasoning)

- Organization made a good faith offer to rehire or restore employee hours, and employee rejected the offer
- Employee was fired for cause
- Employee voluntarily resigned
- Employee voluntarily requested a reduction in hours
- Organization was unable to rehire similarly qualified employees to those who were let go

Documentation is Required

FTE Reduction Exceptions (Blanket Exceptions)

- Operating Restrictions: Borrower was unable to operate at the same level of business activity due to compliance with HHS Secretary, CDC, or OSHA related to the maintenance of standards for sanitation, social distancing or any other worker or customer safety requirement related to COVID-19.
 - Direct or Indirect
 - Non-essential business shut down by state or local government can qualify due to indirect orders from the federal agencies
- December 31, 2020 Restore Date: If an organization reduced FTE employee levels between Feb 15 and April 26, 2020 and then restored its FTE's by December 31 to the FTE levels in the pay period that included Feb 15, 2020.



Polling Question #2

Do you qualify for the EZ application?

- A. *Yes*
- B. *No*
- C. *Unsure*

EZ Forgiveness Application: How to Qualify

- Self-employed individuals, independent contractors and sole proprietors with no employees.

OR

- Organizations that did not cut salaries by more than 25% for <\$100K employees during the loan period AND did not have a 2020 reduction in FTEs (unless exception applies)

OR

- Organizations that did not cut salaries by more than 25% for <\$100K employees during the loan period AND were unable to operate at the same level of activity during the covered period due to compliance with certain federal authorities.

EZ Forgiveness Application: Top Section



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

OMB Control No. 3245-0407
Expiration date: 10/31/2020

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:

EZ Forgiveness Application: Bottom Section

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs:

\$300,000

Line 2. Business Mortgage Interest Payments:

\$0

Line 3. Business Rent or Lease Payments:

\$280,000

Line 4. Business Utility Payments:

\$20,000

Potential Forgiveness Amounts

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

\$600,000

Line 6. PPP Loan Amount:

\$600,000

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

\$500,000

Forgiveness Amount

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

\$500,000

Snapshot on Qualifying Payroll Costs

- U.S. employee salaries covered up to the equivalent of \$100,000 per person
 - If using the 24 week period, the maximum wages per person = \$46,153
 - If using the 24 week period and applying for early forgiveness, prorate the \$100,000 equivalent to your shortened period
- Wages PAID or INCURRED during the covered period
 - All paycheck dates that fall within the covered period are eligible for forgiveness, regardless of timesheet dates covered.
 - Wages incurred but not paid during the covered period are eligible for forgiveness, but pay them on time.
- Employer portion of federal taxes not included (employer FICA)

Snapshot on Qualifying Payroll Costs

- Employer costs for state taxes included (employer SUTA)
- FFCRA wages not included
- Bonuses, severance, hazard pay included in wages
- Employer portion of group health care coverage and retirement contributions included in qualifying payroll costs

Polling Question #3

Is your payroll service providing you with PPP forgiveness reports?

- A. *Yes*
- B. *No*
- C. *Unsure*

Full Forgiveness Application: Bottom Section

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:

Adjustments 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 60% Requirement (divide line 1 by 0.60):

Forgiveness Amount

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

Full Forgiveness Application: Schedule A Worksheet

- Employee Listing with detailed wage and FTE information
- FTE Reduction Safe Harbor Analysis

FTE Reduction Safe Harbor 2:

- Step 1. Enter the borrower's total average FTE between February 15, 2020 and April 26, 2020. Follow the same method that was used to calculate Average FTE in the PPP Schedule A Worksheet Tables. Sum across all employees and enter: .
- Step 2. Enter the borrower's total FTE in the Borrower's pay period inclusive of February 15, 2020. Follow the same method that was used in step 1: .
- Step 3. If the entry for step 2 is greater than step 1, proceed to step 4. Otherwise, FTE Reduction Safe Harbor 2 is not applicable and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.
- Step 4. Enter the borrower's total FTE as of the earlier of December 31, 2020, and the date this application is submitted: .
- Step 5. If the entry for step 4 is greater than or equal to step 2, enter 1.0 on line 13 of PPP Schedule A; the FTE Reduction Safe Harbor 2 has been satisfied. Otherwise, FTE Reduction Safe Harbor 2 does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.

Full Forgiveness Application: Schedule A

- Fields for Salary and Benefit data and FTE/Wage information that feeds in from Schedule A Worksheet
- FTE Reduction Calculation

Full-Time Equivalency (FTE) Reduction Calculation

If you satisfy **any** of the following three criteria, check the appropriate box, skip lines 11 and 12, and enter **1.0** on line 13; otherwise, complete lines 11, 12, and 13:

No reduction in employees or average paid hours: 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 .

FTE Reduction Safe Harbor 1: If you were 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 for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19, check here .

FTE Reduction Safe Harbor 2: If you satisfy FTE Reduction Safe Harbor 2 (see PPP Schedule A Worksheet), check here .

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 any of the above criteria are met:



Full Application: <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>

Documentation Requirements

- Submitted with Forgiveness Application
 - Payroll Reports Supporting Individual Employee Wages
 - Forms 941 and State Unemployment Filings
 - Payment Backup for Health Insurance, Retirement Contributions, and Non-Payroll Costs Covered
 - Lease Agreements and Other Verification of Obligations Existing prior to February 15, 2020
 - (Full Application) FTE Documentation for Chosen Lookback Period

Documentation Requirements

- Maintained by Borrower for 6 Years/Not Submitted with Application
 - (Full Application) Documentation of Individual Wage Amounts Reported
 - (EZ Application) Documentation Supporting EZ Application Certifications
 - Documentation Supporting FTE Reduction Exceptions, if applicable
 - Documentation Supporting Inability to Operate Due to CDC/OSHA/HHS, if applicable
 - Necessity of PPP Loan Request and Eligibility
 - Documentation Relating to Loan Application
 - All Other PPP Loan Related Records

Polling Question #4

Are you expecting full forgiveness on your loan?

- A. *Yes*
- B. *No*
- C. *Unsure*

PPP Loans and 990 Disclosure

PPP Loans and 990 Disclosure

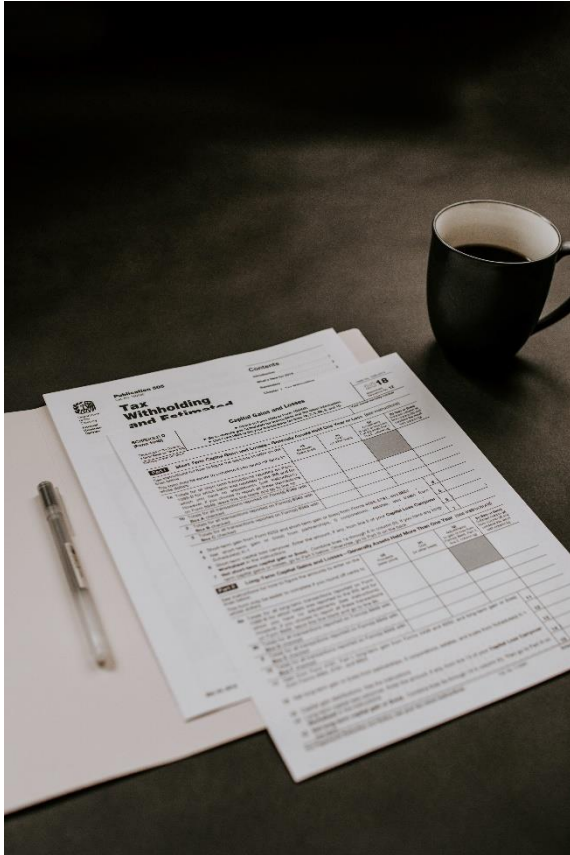
- Form 990 Presentation will generally follow financial statement presentation
- If loan is treated as a conditional contribution, reported on Part VIII, line 1 as the contribution is recognized
- Schedule A (Public support test) treatment would follow this recognition timing
- No interest would be accrued
- If treated as a loan, liability reported on Part X, balance sheet until forgiven
- Interest expense would be accrued
- Forgiveness recorded as a “gain on extinguishment” on financial statement

Schedule A – Public Support Test Questions

- When recognized as a contribution, who is donor?
 - SBA (government) or bank?
 - This impacts whether contribution is subject to 2% limit
- If initially treated as a loan, how is “gain on extinguishment” reported
 - Contribution (see donor question above)?
 - Other income?
 - Other change in net assets?
 - Impact – government contribution can help public support percentage
 - Other income increases denominator



Current Legislative Proposals – PPP Loans (as of July 29, 2020)



- CONTINUING SMALL BUSINESS RECOVERY AND PAYCHECK PROTECTION PROGRAM ACT
 - Additional allowable and forgivable expenses, including:
 - Software, cloud computing and HR and accounting needs
 - Property damage costs due to public disturbances not covered by insurance
 - Covered supplier costs
 - Covered worker protection – PPE and adaptive investments to comply with federal health and safety guidelines (March – December 2020)
 - Clarifies group insurance benefits included in payroll costs
- Simplified Application Process
 - Loans under \$150,000
 - Loans between \$150,000 and \$2 million

Current Legislative Proposals – PPP Loans (as of July 29, 2020)

- Paycheck Protection Program Second Draw Loans. This section creates a second loan from the Paycheck Protection Program for eligible businesses and businesses qualifying originally under this eligibility.
 - Eligible business must have 300 or fewer employees and demonstrate at least a 50% reduction in gross receipts in the first or second quarter of 2020 relative to the same quarter in 2019.
 - Eligible entities must be businesses, certain non-profit entities, veterans' organizations, tribal businesses, self-employed individuals, sole proprietors, independent contractors, or small agricultural co-operatives.
 - Businesses can borrow up to 2.5 times the average monthly payroll costs in the one year before the loan, up to \$2 million (new businesses can figure 2.5x the sum of total monthly payments divided by the total number of months in which payments were made).
 - Borrowers of a Paycheck Protection Program Second Draw would be eligible for loan forgiveness equal to the sum of their payroll costs, covered mortgage, rent, utility payments, covered operations expenditures, covered property damage costs, covered supplier costs, and covered worker protection expenditures incurred before January 1, 2021. The 60/40 cost allocation between payroll and non-payroll costs in order to receive full forgiveness will continue to apply.

Eligibility of 501(c)(6) Organizations for Loan Under the Paycheck Protection Program

- This section would expand eligibility to receive a Paycheck Protection Program loan to include the following organizations:
 - 501(c)(6) organizations if,
 - the organization does not receive more than 10 percent of receipts from lobbying;
 - the lobbying activities do not comprise more than 10 percent of receipts;
 - the organization has 50 or fewer employees; and
 - the covered loan is not more than \$500,000.
 - Chambers of Commerce that are 501(c)(6) organizations with 300 or fewer employees; and
 - Destination Marketing Organization that are 501(c)(6) organizations, quasi-government entities, or political subdivisions of a state or local government with 300 or fewer employees.

Questions?

Contact Us



Richard J. Locastro, CPA, JD

Partner & Director

rlocastro@grfcpa.com



Troy Turner, CPA

VP, Partner & Director

tturner@grfcpa.com



Amy Boland, CPA

Partner

aboland@grfcpa.com



Elinor Litwack, CPA

Partner

elitwack@grfcpa.com



CPAs & ADVISORS



Upcoming Webinars

Keep Calm and Assess Your Risk with Enterprise Risk Management (ERM)

August 12, 2020 | 11:00 am – 12:00 pm

Lessons Learned with Revenue Recognition and Functional Expenses

August 19, 2020 | 11:00 am – 12:00 pm



CPAs & ADVISORS

Disclaimer

This webinar is not intended as, and should not be taken as, financial, tax, accounting, legal, consulting or any other type of advice. While we use reasonable efforts to furnish accurate and up-to-date information, we do not warrant that any information contained in or made available in this presentation is accurate, complete, reliable, current or error-free. We assume no liability or responsibility for any errors or omissions in the content of this presentation.

The use of the information provided in this presentation does not establish any contractual or other form of client engagement between GRF CPAs & Advisors and the reader or user. Any U.S. federal tax advice contained in this presentation is not intended to be used for the purpose of avoiding penalties under U.S. federal tax law. Readers and users of this presentation information are advised not to act upon this information without seeking the service of a professional accountant.