

PPP Loan Forgiveness - Updated FAQs 6.4.20

1. Q: What changes have been made to PPP loan forgiveness this week?

A: As of Wednesday evening (June 3rd), the Senate passed the House bill providing several favorable changes. Pending the President's signature, the most significant changes include:

- Extension of forgiveness period from 8 weeks to 24 weeks
- Extension of June 30th to December 31st to restore staffing or salary levels that were previously reduced
- Reduces from 75% to 60% the new threshold of forgiven amounts that must be from payroll expenses
- Lifts restriction that previously barred companies with forgiven PPP loans from deferring their payroll tax payments

2. Q: What is the timeframe for applying for loan forgiveness?

A: The new bill states that the recipient must apply for forgiveness within 10 months of the last day of the 24-week period. This provision allows time for the recipient to gather documentation, run calculations, and work with their bank to ensure all requirements are met. If forgiveness is not applied for within 10 months, then principal, interest, and fees will begin on the loan.

Akron

1540 West Market St.
Akron, OH 44313
P 330.867.7350
F 330.867.8866

Canton

4740 Belpar St. NW, Ste. B
Canton, OH 44718
P 330.867.7350
F 330.867.8866

Cleveland

25550 Chagrin Blvd., Ste. 401
Beachwood, OH 44122
P 216.674.3800
F 216.674.3801

Kent

2275 OH-59
Kent, OH 44240
P 330.678.5203
F 330.678.3593

3. Q: What can be included as “health insurance” for the payroll component?

A: While we wait for additional guidance from the SBA, our understanding is that only group health insurance premiums can be included. This would disallow other insurance types, such as dental and vision insurance.

4. Q: Any insights into why the payroll threshold was reduced from 75% to 60%?

A: The reduction from 75% to 60% is a favorable change, especially for businesses that were unable to bring employees back right away, but still had mortgage, rent, and utilities expenses. Congress took action on this, and the legislation now allows up to 40% of these aforementioned expenses to be included for forgiveness. It is unknown whether SBA will interpret this language differently.

5. Q: What are the new FTE (full-time equivalent) Headcount rules and methods?

A: Under the SBA guidance and forgiveness application, there are 2 methods to calculate FTE headcount. Method #1 is calculated by taking the sum of average number of hours paid per work for all employees divided by 40 (with each employee maxed at 40 hours per week), rounded to the nearest tenth. Method #2 (simplified method) assigns 1.0 to employees working 40 hours or more per week, and 0.5 for employees who work fewer than 40 hours. Please refer to the AGP updated estimated loan forgiveness calculator “FTE Calcs” tab for more detail and optimization.

6. Q: Any updates to the rule that disallows forgiven expenses as tax deductions?

A: Currently there are no favorable updates to this. Per IRS Notice 2020-32, expenses that are forgiven under the PPP loan are not eligible to be used as deductions on the 2020 tax return. While Congressional changes have been publicly discussed, no actions have been taken yet.

7. Q: Is there a timeframe of how long we must keep re-hired employees?

A: While there is no official guidance to how long you must keep a re-hired employee on payroll, we expect SBA guidance to be issued on this. Please note, the new date of measure is now December 31st, 2020.

8. Q: Can you clarify the incurred or paid ruling for expenses?

A: Based on Interim Final Rule issued 5/22/20, guidance appears to state that expenses can be paid OR incurred during the covered period or alternative payroll covered period. For other forgivable expenses, these must be paid during the covered period, or incurred during the covered period and paid on or before the next regular billing date. Please refer to the AGP estimated loan forgiveness calculator "Potential Loan Forgiveness" tab for more detail and discussion.

9. Q: What should I continue doing now that the window is 24 weeks?

A: Our recommendation is to continue to document all PPP loan expenses, and continue to build the file of all items listed out in our AGP estimated loan forgiveness calculator "Documentation" tab. We encourage the use of our estimated loan forgiveness calculator to provide an estimate of what could be forgiven based on new guidance. Please stay tuned for news blasts and updates as new rulings and guidance become available.

10. Q: Any updates to the over \$100k employee threshold for forgiveness?

A: Prior to the new bill, any non-owner employee's forgiven payroll was capped at \$15,385 ($\$100k/52 \times 8$ weeks). While the new bill does not specifically state the limit has increased, we are assuming the new threshold will now be \$46,154 ($\$100k/52 \times 24$ weeks). Please refer to the AGP updated estimated loan forgiveness calculator "Total Payroll Cost" tab for more detail.

11. Q: Can you provide more detail on the Owner-employee compensation cap?

A: The amount of loan forgiveness requested for owner-employees and self-employed individuals' payroll compensation can be no more than the lesser of 8/52 of 2019 compensation (i.e. approximately 15.38 percent of 2019 compensation) or \$15,385 per individual in total across all businesses.

- Owner-employees are capped by the amount of their 2019 employee cash compensation and employer retirement and health care contributions made on their behalf
- Schedule C filers are capped by the amount of their owner compensation replacement, calculated based on 2019 net profit
- No additional forgiveness is provided for retirement or health insurance contributions as such expenses are paid out of their net self-employed income
- General partners are capped by the amount of their 2019 net earnings from self-employment (reduced by claimed section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235
- No additional forgiveness is provided for retirement or health insurance contributions as such expenses are paid out of their net self-employment income
- While the new bill does not specifically state the limit has increased, we are assuming the new threshold will now be \$46,154 ($\$100k/52 \times 24$ weeks).

Apple Growth Partners' published material provides general coverage of its subject area and is presented to the reader for educational purposes based on the most current regulatory information available at the time it was written. All communications, whether written or oral should be reaffirmed prior to the submission of any application. All information in this published material and on our website is provided in good faith; however, we make no representation or warranty of any kind, express or implied, regarding the accuracy, adequacy, validity, reliability, availability, compliance with any law (federal, state or local) or professional standard or completeness of any information. We assume no responsibility to any recipient of this material to correct or update its contents for any reason, including changes in any law or professional standard. It is not intended to be audit, tax, accounting, advisory, consulting or investment advice. The information in this article is also not a substitute for legal advice and may not be suitable in a particular situation. Consult your attorney for legal advice.