

2020 Workbook

2020 FEDERAL TAX WORKBOOK SUPPLEMENT

University of Illinois Tax School

October 27, 2020

TABLE OF CONTENTS

Presidential Executive Orders.....	2
Payroll Tax Deferral	2
Student Loan Repayment Relief Extension	4
Extension of Unemployment Benefits	4
Paycheck Protection Program.....	5
Goal of the program.....	5
Maximum Borrowing.....	6
PPP vs. EIDL	9
Borrowers Can Receive Both a PPP and an EIDL Loan	10
Changes to the PPP	12
Comparison Chart: Original PPP with PPPFA	14
Loan Forgiveness	15
How PPP Loan Forgiveness Works.....	15
Loan Forgiveness and Deductibility of Expenses.....	16
Appendix.....	24
Instructions for SBA Form 3508EZ.....	24
SBA Form 3508EZ	28
Instructions for SBA Form 3508.....	31
SBA Form 3508	37
SBA FAQs	42

2020 Workbook

PRESIDENTIAL EXECUTIVE ORDERS

PAYROLL TAX DEFERRAL

On August 8, 2020, President Trump signed the “Memorandum on Deferring Payroll Tax Obligations in Light of the Ongoing COVID-19 Disaster.”¹

The memorandum states that “... the withholding, deposit, and payment of the tax imposed by 26 U.S.C. 3101(a), and... 26 U.S.C. 3201 as is attributable to the rate in effect under 26 U.S.C. 3101(a), on wages or compensation, as applicable, paid during the period of **September 1, 2020, through December 31, 2020...**”

Note. This section of the memorandum concludes that employees may elect to defer the withholding of social security taxes only, currently calculated at 6.2% of gross payroll on the first \$137,700 of wages paid in 2020.²

Following are the key points on the payroll tax deferral.

- The employee’s gross payroll (pre-tax) must be less than \$4,000 on a biweekly basis. This amount can be adjusted for other payroll frequencies.

Example 1. Julie DeMoss is a salaried employee of Now You Sign, Inc. Her annual salary is \$100,000. Even though Julie is paid monthly, she still qualifies to have her payroll tax withholding deferred if she wishes for the period September through December 2020 because her salary, if divided over 26 biweekly periods, is \$3,846 ($\$100,000 \div 26$ biweekly payrolls), which is less than the \$4,000 threshold.

Example 2. Use the same facts as **Example 1**, except Julie’s annual salary is \$120,000. Julie does not qualify to defer her social security tax withholding because her salary, calculated on a biweekly basis, is more than \$4,000 ($\$120,000 \div 26$ biweekly payrolls = \$4,615).

Note. IRS Notice 2020-65, discussed later, indicates the determination of applicable wages is to be made for each pay period. Therefore, if the amount of compensation payable to an employee for a particular pay period is less than the threshold amount (\$4,000 for biweekly pay periods), then the payroll tax deferral option applies to that compensation, **without consideration of the amount paid to that employee in other pay periods.**

Example 3. Use the same facts as **Example 2**. Julie decides to reduce her work schedule during the last four months of 2020 to spend more time at home. Her monthly salary is reduced to \$3,800. Using the guidance of IRS Notice 2020-65, Julie qualifies to defer withholding of social security taxes for the last four months of 2020 if she chooses to do so.

¹ *Memorandum on Deferring Payroll Tax Obligations in Light of the Ongoing COVID-19 Disaster*. Aug. 8, 2020. The White House. [whitehouse.gov/presidential-actions/memorandum-deferring-payroll-tax-obligations-light-ongoing-covid-19-disaster/] Accessed on Aug. 30, 2020.

² *Contribution and Benefit Base*. Social Security Administration (SSA).

[ssa.gov/oact/cola/cbb.html#:~:text=We%20call%20this%20annual%20limit,for%20employees%20and%20employers%2C%20ach] Accessed on Aug. 30, 2020.

2020 Workbook

Example 4. Use the same facts as **Example 1**. In October 2020, Julie receives a \$15,000 bonus. For that payroll, based on the guidance provided by IRS Notice 2020-65, it appears that her pay does not qualify for deferral of payroll taxes. However, when Julie receives her next regular payroll (which is less than \$4,000 on a biweekly basis), her salary qualifies for payroll tax deferral.

- Payroll taxes deferred under the terms of the memorandum will not incur any late penalties, interest, additional amount, or addition to the tax.

The mechanics of the repayment of deferred payroll taxes were not addressed in the memorandum. However, section 4 states:

Tax Forgiveness. The Secretary of the Treasury shall explore avenues, including legislation, to eliminate the obligation to pay the taxes deferred pursuant to the implementation of this memorandum.

On August 28, 2020, the IRS released Notice 2020-65³ to provide the mechanics for the implementation of the memorandum, assuming that payroll deferrals are not eliminated.

The notice confirms the payroll maximum of \$4,000 on a biweekly basis as the limit for this option. In addition, the IRS provides a timetable for the repayment of deferred payroll taxes. According to the notice, repayment of the deferred taxes is to occur **ratably between January 1 and April 30, 2021**.

Example 5. Use the same facts as **Example 1**. Julie decided to defer her social security taxes from September 1 through December 31, 2020. Julie's annual pay was \$100,000. During the deferral months, Julie was able to defer \$2,067 of social security taxes. ($\$100,000 \div 12 \text{ months} \times 4 \text{ months deferral period} \times 6.2\% \text{ tax rate}$). Beginning with her first paycheck in January 2021, in addition to her normal withholdings, Julie's employer must withhold an additional \$517 each month ($\$2,067 \text{ total taxes deferred} \div 4 \text{ month repayment period}$) to comply with the IRS guidance to have the deferral repaid ratably between January 1 and April 30, 2021.

Caution. Employers who provide the option of allowing employees to defer payroll taxes will ultimately be responsible for remittance of these deferred payroll taxes during 2021. If an employee quits after electing payroll tax deferral, it is unclear what measures the employer can take to recover the deferred taxes if they are not charged against the employee's final paycheck.

Penalties and interest will begin to accrue on unpaid deferred amounts on May 1, 2021.⁴

³ IRS Notice 2020-65, 2020-38 IRB 567.

⁴ Ibid.

2020 Workbook

STUDENT LOAN REPAYMENT RELIEF EXTENSION

On August 8, 2020, President Trump signed the “Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic.”⁵

This memorandum provides additional time to defer repayment of student loans. It also waives interest for the period October 1 through December 31, 2020. Section 2 of the memorandum states:

In light of the national emergency declared on March 13, 2020, the Secretary of Education shall take action pursuant to applicable law to effectuate appropriate waivers of and modifications to the requirements and conditions of economic hardship deferments described in section 455(f)(2)(D) of the Higher Education Act of 1965, as amended, 20 U.S.C. 1087e(f)(2)(D), and provide such deferments to borrowers as necessary to continue the temporary cessation of payments and the waiver of all interest on student loans held by the Department of Education until December 31, 2020.

The Coronavirus Aid, Relief, and Economic Security Act⁶ (CARES Act) provided for the suspension of all student loan payments and accrual of interest from March 27, 2020, through September 30, 2020.⁷ The August 8 memorandum continues this provision through December 31, 2020.

Note. For those borrowers with student loan debt who have the financial ability to keep making payments, all payments made from March 27 through December 31, 2020, will be directly applied to the principal balance. This may assist borrowers in reducing or eliminating their student loan debt more quickly.

EXTENSION OF UNEMPLOYMENT BENEFITS

On August 8, 2020, President Trump signed the “Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019.”⁸ Among various provisions contained in this memorandum, section 4 addresses expiring unemployment benefits.

Sec. 4. Assistance Program for Lost Wages. (a) For purposes of this memorandum, “State” includes the territories and the District of Columbia, and “Governor” includes the chief executive thereof.

(b) To help meet the needs of the American people during this unprecedented and continuously evolving public health crisis, the Secretary of Homeland Security (Secretary), acting through the FEMA Administrator, is authorized to make available other needs assistance for lost wages, in accordance with section 408(e)(2) of the Stafford Act (42 U.S.C. 5174(e)(2)) (“lost wages assistance”), to the people of a State, including the members of any tribe residing therein, if the Governor requests lost wages assistance and agrees to administer delivery and provide adequate oversight of the program, for a major disaster I declared pursuant to section 401 of the Stafford Act (42 U.S.C. 5170) for COVID-19, under the following conditions:

⁵ *Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic.* Aug. 8, 2020. [whitehouse.gov/presidential-actions/memorandum-continued-student-loan-payment-relief-covid-19-pandemic/] Accessed on Aug. 31, 2020.

⁶ PL 116-136.

⁷ PL 116-136, §3513(a).

⁸ *Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019.* Aug. 8, 2020. [whitehouse.gov/presidential-actions/memorandum-authorizing-needs-assistance-program-major-disaster-declarations-related-coronavirus-disease-2019/] Accessed on Aug. 31, 2020.

2020 Workbook

(i) the Governor requests from the FEMA Administrator a grant for lost wages assistance pursuant to 42 U.S.C. 5174(f)(1)(A) and agrees to the cost-sharing requirement of 42 U.S.C. 5174(g)(2); and

(ii) the Governor administers delivery of financial assistance for lost wages in conjunction with the State's unemployment insurance system.

(c) In exercising this authority, the Secretary, acting through the FEMA Administrator, shall, subject to the limitations above, approve a lost wages assistance program that authorizes **the Governor to provide a \$400 payment per week, which shall reflect a \$300 Federal contribution, to eligible claimants from the week of unemployment ending August 1, 2020.** [emphasis added]

The CARES Act provided for additional unemployment benefits of \$600 per week.⁹ This provision expired on July 31, 2020. The presidential memoranda, as described above, is designed to continue federal support for unemployment benefits of \$400 per week. However, only \$300 is designated as a federal contribution under this memorandum; the other \$100 must come from the state.

There is a limitation on the time or dollars appropriated to this unemployment continuation as specified in section 6 of the memorandum.

*Sec. 6. Termination. (a) The lost wages assistance program described in section 4(b) of this memorandum shall be available for eligible claimants **until the balance of the [Disaster Relief Fund] reaches \$25 billion or for weeks of unemployment ending not later than December 6, 2020, whichever occurs first, at which time the lost wages assistance program shall terminate.*** [emphasis added]

(b) The lost wages assistance program shall terminate upon enactment of legislation providing, due to the COVID-19 outbreak, supplemental Federal unemployment compensation, or similar compensation, for unemployed or underemployed individuals.

PAYCHECK PROTECTION PROGRAM

GOAL OF THE PROGRAM

The Coronavirus Aid, Relief, and Economic Security (CARES) Act¹⁰ established the Paycheck Protection Program (PPP). Small businesses that laid off workers or reduced their workforce due to COVID-19 issues were the program's intended beneficiaries. **The PPP was designed to provide short-term payroll assistance for businesses affected by COVID-19 to either retain workers or bring employees back to work during the pandemic. The program was intended to last for an 8-week period.**

⁹ PL 116-136, §§2102 and 2104(b).

¹⁰ PL 116-136.

2020 Workbook

Small businesses that were impacted by COVID-19 issues between February 15 and June 30, 2020, could apply for loans through the end of June. A small business is one that has no more than the greater of:

- 500 employees, or
- The size standard in the number of employees established for the industry in which the business operates.¹¹

Note. For the industry size standards, go to www.sba.gov/size.

The term **employee** includes individuals employed on a full-time, part-time, or other basis.¹² For purposes of PPP loan forgiveness, the CARES Act uses the standard of **full-time equivalent employees (FTEEs)** to determine the extent to which the loan forgiveness amount will be reduced in the event of a workforce reduction.¹³ Loan forgiveness is discussed later.

Note. The Paycheck Protection Program Flexibility Act (PPPFA) of 2020¹⁴ changed many of the original program provisions. A comparison of the original program and the changes made by the PPPFA is provided later.

The PPP loans are guaranteed by the Small Business Administration (SBA). Most businesses, including nonprofit organizations, tax-exempt veterans organizations, and tribal business concerns are eligible to participate in the program. Individuals with no employees operating as sole proprietorships or independent contractors are also eligible.¹⁵

MAXIMUM BORROWING¹⁶

The maximum PPP loan amount is based on an average of the monthly payroll costs incurred during the 12 months immediately preceding the date of the PPP loan. The maximum amount for seasonal employers is the average monthly payroll costs for:

- The 12-week period beginning February 15, 2019, or
- March 1, 2019, through June 30, 2019.

An applicant that was not in business from February 15, 2019, to June 30, 2019, can use the average monthly payroll costs for the period January 1, 2020, through February 29, 2020.

The average monthly payroll cost is then multiplied by 2.5 to determine the maximum loan amount.

¹¹ PL 116-136, §1102(a).

¹² Ibid.

¹³ *Paycheck Protection Program Loans Frequently Asked Questions (FAQs)*. Aug. 11, 2020. Small Business Administration. [home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf] Accessed on Sep. 3, 2020.

¹⁴ PL 116-142.

¹⁵ *Paycheck Protection Program Loans Frequently Asked Questions (FAQs)*. Aug. 11, 2020. Small Business Administration. [home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf] Accessed on Sep. 3, 2020.

¹⁶ PL 116-136, §1102; *Paycheck Protection Program Loans Frequently Asked Questions (FAQs)*. Aug. 11, 2020. Small Business Administration. [home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf] Accessed on Sep. 3, 2020.

2020 Workbook

Businesses that received economic injury disaster loans (EIDL) between January 31 and April 3, 2020, and used the EIDL funds for payroll costs, were required to refinance their EIDL loan into their PPP loan, thereby decreasing the PPP proceeds.¹⁷

Note. A comparison between EIDL and PPP loans is provided later in this section.

Payroll expenses used for calculating PPP loan amounts includes the following.¹⁸

- Regular compensation such as salary, wages, commissions, or similar compensation
- Cash tips

Note. Compensation for self-employed persons with no employees is defined as business net profit from the 2019 tax year, not to exceed \$100,000.¹⁹

- Vacation, parental, family, medical, and sick leave payments
- Employee separation payments
- Group health-care benefits, including insurance premiums
- Payment of employer retirement benefit
- Payment of state and local taxes (such as unemployment taxes) assessed on employee compensation

The following expenses are not included when calculating the total PPP payroll costs.²⁰

- Any compensation over \$100,000 (annualized) per employee
- Federal Insurance Contributions Act (FICA) taxes, railroad retirement taxes, and income taxes withheld on wages
- Compensation for employees who live outside of the United States
- Sick and family leave wages for which a credit was allowed under the Families First Coronavirus Response Act (FFCRA)

¹⁷ *SBA Procedural Notice 5000-20032*. U.S. Small Business Administration. Jun.19, 2020. [sba.gov/sites/default/files/2020-06/5000-20032-508.pdf] Accessed on Sep. 16, 2020.

¹⁸ PL 116-136, §1102(a), amending §7(a) of the Small Business Act (15 USC §636(a)).

¹⁹ *Business Loan Program Temporary Changes; Paycheck Protection Program – Additional Eligibility Criteria and Requirements for Certain Pledges of Loans*. U.S. Small Business Administration. [sba.gov/sites/default/files/2020-04/Interim-Final-Rule-Additional-Eligibility-Criteria-and-Requirements-for-Certain-Pledges-of-Loans.pdf] Accessed on Jul. 21, 2020.

²⁰ PL 116-136, §1102(a), amending §7(a) of the Small Business Act (15 USC §636(a)).

2020 Workbook

Once an eligible small business or independent contractor received a PPP loan, it could be used for the following purposes.²¹

- Payroll costs for the covered period or the alternative payroll covered period
 - ♦ **Covered period**—The covered period is either the 24-week period beginning on the date the PPP loan was disbursed or, if the borrower received the PPP loan before June 5, 2020, the borrower can elect an 8-week covered period.²²
 - ♦ **Alternative payroll covered period**—Borrowers with a biweekly (or more frequent) payroll schedule can elect to calculate eligible payroll costs using the 8-week (56-day) period that begins on the first day of their first pay period following their PPP loan disbursement.²³

Note. For business owner-employees, compensation is limited to no more than either eight weeks of their 2019 compensation (up to \$15,385) for an 8-week covered period or 2.5 months of their 2019 compensation (up to \$20,833) for a 24-week covered period per owner.²⁴ Guidance issued on August 25, 2020, clarifies that this treatment does not apply to owner-employees with less than a 5% ownership stake in a C or S corporation.²⁵

- Costs for continuation of group health-care benefits during periods of paid sick, medical, or family leave, and insurance premiums
- Payments of **interest** on any business mortgages (but not prepayment fees or principal payments on the mortgage)
- Rent (including rent under a lease agreement)

Note. Additional guidance released on August 25, 2020, clarifies that the amount of rent eligible for loan forgiveness when rent is paid to a related party **is limited** to the amount of **mortgage interest** owed on the property during the covered period that is attributable to the space being rented by the business. In addition, both the lease and the mortgage must have existed before February 15, 2020.²⁶

- Utilities
- Interest on any other debt obligations **that existed before the covered period**, which was initially defined as the period beginning on February 15, 2020, and ending on June 30, 2020 (The PPPFA extends the covered period to 24 weeks or December 31, 2020, whichever is earlier.²⁷)

²¹ Ibid.

²² *Paycheck Protection Program Loan Forgiveness Application*. U.S. Small Business Administration. [www.sba.gov/sites/default/files/2020-05/3245-0407%20SBA%20Form%203508%20PPP%20Forgiveness%20Application.pdf] Accessed on Sep. 17, 2020.

²³ Ibid.

²⁴ 85 FR 38304, 38307 (Jun. 26, 2020).

²⁵ *Business Loan Program Temporary Changes; Paycheck Protection Program – Treatment of Owners and Forgiveness of Certain Nonpayroll Costs*. U.S. Small Business Administration. Sec. III item 1, page 5. [www.sba.gov/sites/default/files/2020-08/PPP%20IFR%20-%20Ownership.pdf] Accessed on Sep. 16, 2020.

²⁶ *Business Loan Program Temporary Changes; Paycheck Protection Program – Treatment of Owners and Forgiveness of Certain Nonpayroll Costs*. U.S. Small Business Administration. Sec. III item 2, page 5. [www.sba.gov/sites/default/files/2020-08/PPP%20IFR%20-%20Ownership.pdf] Accessed on Sep. 16, 2020.

²⁷ PL 116-142, §3(a).

2020 Workbook

PPP VS. EIDL

The PPP is one of two programs created by the government to aid small businesses during the pandemic. The second is the EIDL program. While both programs were designed to help companies continue operating through the pandemic, each program is slightly different.

The PPP was implemented to help small businesses retain workers (or continue payroll) by covering eight weeks (24 weeks under the PPPFA) of payroll plus other operational costs, as discussed earlier. These loans can be forgiven entirely (discussed later) if program guidelines are followed. Lenders (banks, credit unions, etc.) provided the funding for the PPP with loans guaranteed by the SBA.

The EIDL program is a direct SBA program designed to provide economic relief to small businesses that are experiencing a temporary loss of revenue due to COVID-19. EIDL loan provisions include a maximum \$10,000 advance that is automatically forgiven.²⁸

²⁸ *Coronavirus (COVID-19)*. U.S. Small Business Administration. [www.sba.gov/funding-programs/disaster-assistance/coronavirus-covid-19] Accessed on Sep. 3, 2020.

2020 Workbook

Borrowers Can Receive Both a PPP and an EIDL Loan

Small businesses could apply for both an EIDL loan and a PPP loan. Both loans cannot be used for the same expenses. For example, if the proceeds from a PPP loan are used for payroll, EIDL loan proceeds cannot be used for the same payroll.

The following table compares PPP loans with EIDL loans.

	PPP Loan	EIDL Loan
Administered by	Approved lenders ²⁹	SBA ³⁰
Maximum amount	Lesser of \$10 million or 2.5 times average monthly payroll ³¹	6 months of working capital, up to \$2 million ³²
Term	2 years for loans issued prior to June 5, 2020; 5 years for loans issued after June 5, 2020 ³³	30 years ³⁴
Interest rate	1% ³⁵	3.75% for businesses; 2.75% for nonprofits ³⁶
Deferral	Until SBA gives forgiveness amount to lender or for 10 months after the end of covered period (interest accrues) ³⁷	1 year (interest accrues) ³⁸
Prepay allowed?	Yes ³⁹	Yes ⁴⁰

²⁹ *Paycheck Protection Program*. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

³⁰ *Coronavirus (COVID-19)*. U.S. Small Business Administration. [www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources] Accessed on Sep. 3, 2020.

³¹ PL 116-136, §1102(a), amending §7(a) of the Small Business Act (15 USC §636(a)).

³² *Economic Injury Disaster Loans Program Description*. GovLoans.gov. [govloans.gov/loans/economic-injury-disaster-loans/] Accessed on Sep. 18, 2020.

³³ *Paycheck Protection Program*. Aug. 11, 2020. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

³⁴ *Coronavirus (COVID-19)*. U.S. Small Business Administration. [www.sba.gov/funding-programs/disaster-assistance/coronavirus-covid-19] Accessed on Sep. 3, 2020.

³⁵ *Paycheck Protection Program*. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

³⁶ *Coronavirus (COVID-19)*. U.S. Small Business Administration. [www.sba.gov/funding-programs/disaster-assistance/coronavirus-covid-19] Accessed on Sep. 3, 2020.

³⁷ *Paycheck Protection Program Frequently Asked Questions (FAQs) on PPP Loan Forgiveness*. Aug. 11, 2020. U.S. Small Business Administration. [sba.gov/sites/default/files/2020-08/PPP%20-%20Loan%20Forgiveness%20FAQs%20%28August%2011%2C%202020%29-508.pdf] Accessed on Sep. 16, 2020.

³⁸ *Coronavirus (COVID-19)*. U.S. Small Business Administration. [www.sba.gov/funding-programs/disaster-assistance/coronavirus-covid-19] Accessed on Sep. 3, 2020.

³⁹ *Paycheck Protection Program (PPP) Information Sheet: Borrowers*. U.S. Treasury. [home.treasury.gov/system/files/136/PPP--Fact-Sheet.pdf] Accessed on Sep. 18, 2020.

⁴⁰ *Frequently Asked Questions COVID-19 Economic Injury Disaster Loan (EIDL)*. Sep. 8, 2020. U.S. Small Business Administration [sba.gov/sites/default/files/2020-09/COVID%20EIDL%20FAQ%20FINAL%20APPROVED%20Revisions%20091420-508.pdf] Accessed on Sep. 16, 2020.

2020 Workbook

	PPP Loan	EIDL Loan
Can be used for	Payroll, benefits, mortgage interest, rent, utilities, other debt ⁴¹	Working capital and operating expenses, such as continuing employee health care benefits, rent, utilities, debt obligations ⁴²
Refinance debt?	Yes (for EIDL) ⁴³	No ⁴⁴
Collateral required?	No ⁴⁵	Yes, for loans over \$25,000 ⁴⁶
Forgiveness	Yes, if 60% used for payroll (PPPFA rules) ⁴⁷	Yes, for advance amount (up to \$10,000) ⁴⁸
Guarantee required?	None ⁴⁹	No, for loans under \$200,000 ⁵⁰

⁴¹ *Paycheck Protection Program*. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

⁴² *Frequently Asked Questions COVID-19 Economic Injury Disaster Loan (EIDL)*. Sep. 8, 2020. U.S. Small Business Administration. [sba.gov/sites/default/files/2020-09/COVID%20EIDL%20FAQ%20FINAL%20APPROVED%20Revisions%20091420-508.pdf] Accessed on Sep. 16, 2020.

⁴³ *Paycheck Protection Program*. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

⁴⁴ *Frequently Asked Questions COVID-19 Economic Injury Disaster Loan (EIDL)*. Sep. 8, 2020. U.S. Small Business Administration. [sba.gov/sites/default/files/2020-09/COVID%20EIDL%20FAQ%20FINAL%20APPROVED%20Revisions%20091420-508.pdf] Accessed on Sep. 16, 2020.

⁴⁵ *Paycheck Protection Program*. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

⁴⁶ *Frequently Asked Questions COVID-19 Economic Injury Disaster Loan (EIDL)*. Sep. 8, 2020. U.S. Small Business Administration. [sba.gov/sites/default/files/2020-09/COVID%20EIDL%20FAQ%20FINAL%20APPROVED%20Revisions%20091420-508.pdf] Accessed on Sep. 16, 2020.

⁴⁷ *Paycheck Protection Program*. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

⁴⁸ *Coronavirus (COVID-19)*. U.S. Small Business Administration. [www.sba.gov/funding-programs/disaster-assistance/coronavirus-covid-19] Accessed on Sep. 3, 2020.

⁴⁹ *Paycheck Protection Program*. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

⁵⁰ *Frequently Asked Questions COVID-19 Economic Injury Disaster Loan (EIDL)*. Sep. 8, 2020. U.S. Small Business Administration. [sba.gov/sites/default/files/2020-09/COVID%20EIDL%20FAQ%20FINAL%20APPROVED%20Revisions%20091420-508.pdf] Accessed on Sep. 16, 2020.

2020 Workbook

CHANGES TO THE PPP

President Trump signed the PPPFA⁵¹ of 2020 into law on June 5, 2020. It became effective on the date of enactment.

The PPPFA makes the following changes to the PPP.

- **Time period (covered period) to use the funds for qualified expenses expanded from eight weeks to 24 weeks.**⁵² This change is an expansion of the forgiveness period from eight weeks (56 days) to the **earlier** of 24 weeks from the loan's origination date or December 31, 2020. A borrower that received a PPP loan prior to June 5, 2020, can elect to use the original 8-week covered period.⁵³
- The deadline to borrow funds was changed to August 8, 2020.⁵⁴

Note. This provision was not part of the PPPFA but was enacted as part of PL 116-147 on July 4, 2020.

- **The 75/25 rule became a 60/40 rule.**⁵⁵ Under the PPPFA, only 60% of the loan amount is required to be used for payroll, versus the 75% that was required under the PPP. Borrowers can spend **more than** 60% on payroll because the law states that 60% **shall** be spent on payroll costs and 40% **may** be spent on other qualified expenses.

Note. A joint statement released on June 8, 2020, by Treasury Secretary Steven Mnuchin and SBA Administrator Jovita Carranza clarified that if a borrower uses less than 60% of the loan amount for payroll costs during the covered period, the borrower may be eligible for partial loan forgiveness.⁵⁶

Note. By expanding the covered period from eight weeks to 24 weeks, the PPPFA also increased the maximum amount of payroll that may be considered for each employee. The original PPP used a maximum annual payroll of \$100,000 per employee. Therefore, for the covered period, the maximum amount of payroll per employee (not considering any additions to payroll such as pension contributions) was \$15,385 ($\$100,000 \div 52 \text{ weeks} \times 8 \text{ weeks}$).

The PPPFA still uses a maximum annualized payroll amount of \$100,000 per employee but the maximum amount for the covered period increases to \$46,154 ($\$100,000 \div 52 \text{ weeks} \times 24 \text{ weeks}$).

⁵¹ PL 116-142.

⁵² PL 116-136, §1106 as amended by PL 116-142, §3(b)(1).

⁵³ PL 116-142, §3(b)(3); *Paycheck Protection Program*. Aug. 11, 2020. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program] Accessed on Sep. 3, 2020.

⁵⁴ *Paycheck Protection Program*. U.S. Small Business Administration. [www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program#section-header-0] Accessed on Sep. 3, 2020.

⁵⁵ PL 116-136, §3, amending §1106 of PL 116-136 (CARES Act).

⁵⁶ *Joint Statement by Treasury Secretary Steven T. Mnuchin and SBA Administrator Jovita Carranza Regarding Enactment of the Paycheck Protection Program Flexibility Act*. Jun. 8, 2020. U.S. Department of the Treasury. [home.treasury.gov/news/press-releases/sm1026] Accessed on Sep. 3, 2020.

2020 Workbook

- **The period to restore FTEEs is extended.** The original PPP under the CARES Act gave employers until June 30, 2020, to restore the number of FTEEs to pre-February 15, 2020 levels for loan forgiveness purposes.⁵⁷ The PPPFA extends this period in which borrowers must restore FTEEs or certain salaries (or wages) from June 30, 2020, to December 31, 2020.⁵⁸

Note. Together with the 24-week period for incurring qualified expenses eligible for forgiveness, this provision indicates that if a borrower spends 100% of the loan on payroll costs and other eligible expenses during the 24-week period and its FTEE count and certain salaries (or wages) on December 31, 2020, equals or exceeds those amounts as of February 15, 2020, the borrower's entire loan amount may be eligible for forgiveness.

- **New FTEE exceptions are available based on employee availability.**⁵⁹ The PPPFA includes two new exceptions, which provide relief for the requirement that borrowers must restore their FTEEs to February 15, 2020, levels in order to qualify for loan forgiveness.
 - ♦ When an employer is unable to rehire employees who were employees on February 15, 2020, and is unable to hire similarly qualified employees for unfilled positions by December 31, 2020, the amount of loan forgiveness is determined without regard to a reduction in FTEEs.⁶⁰

Note. This could apply when the borrower/employer requires highly skilled or specialized workers. In addition, it could apply to situations in which borrowers/employers have a difficult time finding workers due to risks associated with COVID-19 and/or the need for social distancing.

- ♦ When the borrower cannot return to the same level of activity at which it was operating before February 15, 2020, due to social distancing and other restrictions, the amount of loan forgiveness is determined without regard to a reduction in the number of FTEEs.⁶¹

Note. More guidance from the SBA is needed, but these exceptions appear to create ways for employers to qualify for loan forgiveness, despite not rehiring employees.

- **The PPP loan maturity date and deferment period were extended.**⁶² The maturity date for any loan amounts remaining after the application of forgiveness is now a minimum of **five years** instead of two. The deferment period is changed from six months to the date on which the lender determines the borrower's loan forgiveness amount.⁶³ The 1% interest rate and all other loan terms remain the same.
- **Borrowers have a limited period to apply for forgiveness.** Section 7(a)(36)(M) of the Small Business Act (15 USC §636(a)(36)(M) reads as follows.

RULE OF CONSTRUCTION.—If an eligible recipient fails to apply for forgiveness of a covered loan within 10 months after the last day of the covered period defined in section 1106(a) of this title, such eligible recipient shall make payments of principal, interest, and fees on such covered loan beginning on the day that is not earlier than the date that is 10 months after the last day of such covered period.

⁵⁷ PL 116-136, §1106(d)(5).

⁵⁸ PL 116-142, amending PL 116-136, §1106(d)(5).

⁵⁹ PL 116-142, §3, amending PL 116-136, §1106(d).

⁶⁰ PL 116-142, §3, amending PL 116-136, §1106.

⁶¹ Ibid.

⁶² PL 116-142, §2(a).

⁶³ PL 116-142, §3(c).

2020 Workbook

- **Employers can defer payroll tax for two years.**⁶⁴ The legislation allows PPP borrowers to defer payroll taxes under the CARES Act. Originally, PPP borrowers could not defer payroll taxes if they had any portion of their loan forgiven. The PPPFA removes this provision. Borrowers can defer 50% of the employer’s share of payroll taxes until 2021 and the remaining 50% until 2022. These payroll taxes are considered qualified payroll expenses.

Comparison Chart: Original PPP with PPPFA

	Original PPP	Revised PPP loans
Covered period for loan forgiveness	8 weeks, or Alternative payroll covered period	24 weeks, or Alternative payroll covered period
Interest Rate	1%	1%
Term	2 years unless lender and borrower agree to increase to 5 years	5 years
Payment deferral	6 months	Up to the date loan forgiveness amounts are determined and paid by SBA to the lender
Reductions to forgiveness amount	Reduction in average FTEs in covered period versus test period	Reduction in average FTEs in covered period versus test period
Exceptions to reductions	Exclude FTEs who refused to return to work	No reduction calculation in FTEs if business is unable to return to pre-pandemic operating levels Only include FTEs in covered period FTEs or wages are restored before December 31, 2020

⁶⁴ PL 116-136 §2302(a)(3), removed by PL 116-142, §4(a).

2020 Workbook

LOAN FORGIVENESS

One of the PPP's most appealing features is the borrower's ability to have the loan amount forgiven.⁶⁵ To have PPP loans forgiven, three requirements must be met.⁶⁶

1. Loans were used exclusively for authorized purposes (mentioned earlier).
2. Loans were used to offset no more than eight weeks (24 weeks under the PPPFA) of eligible expenses.
3. Businesses retained employees or payroll at salary levels comparable to before COVID-19.

If any of the PPP proceeds were not used for the purposes described previously, the amount used for unauthorized purposes must be repaid.⁶⁷ Payments begin after a 6-month grace period (or up to the date loan forgiveness amounts are determined and paid by the SBA to the lender under the PPPFA). The maximum repayment period is 10 years, with a maximum interest rate of 4%.⁶⁸

Note. Calculating which costs qualify for loan forgiveness is determined by a formula that has been changed several times by Congressional actions and through interpretation by the SBA. Loan forgiveness is discussed later in this section.

If a business received a PPP loan, they could not also receive an employee retention credit (which would provide a refundable payroll tax credit for 50% of qualified wages paid by eligible employers to certain employees during a calendar quarter).

How PPP Loan Forgiveness Works

The SBA released a revised loan forgiveness application form on June 16, 2020. In addition, the SBA released a new simplified form for borrowers that meet certain conditions.⁶⁹ These new forms include the changes made by the PPPFA and are designed to simplify the application process (according to the SBA).⁷⁰ These forms are included in the appendix.

The new forgiveness application has been reduced to five pages versus the 11-page form the SBA initially released.

SBA Form 3508EZ, *PPP Loan Forgiveness Application*, is the simplified form that may be used if the borrower meets one of the following requirements.⁷¹

- The borrower is a self-employed person with no employees.
- The borrower did not reduce the salaries or wages of any employee by more than 25% during the covered period compared to the period between January 1, 2020, and March 31, 2020, and 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.

⁶⁵ PL 116-136, §1106.

⁶⁶ PL 116-136, §1106(b).

⁶⁷ 85 Fed. Reg. 20811, 20814 (Apr. 15, 2020).

⁶⁸ PL 116-136, §1102, amending §7(a) of the Small Business Act (15 USC §636(a)).

⁶⁹ *Paycheck Protection Program Loan Forgiveness Application*. Jun. 16, 2020. U.S. Small Business Administration. [sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application] Accessed on Aug. 27, 2020.

⁷⁰ Ibid.

⁷¹ Instructions for SBA Form 3508EZ.

2020 Workbook

- The borrower was unable to operate at the same level of business activity during the covered period as before February 15, 2020, due to health directives related to COVID-19, and did not reduce the annual salary or hourly wages of any employee by more than 25% during the covered period compared to the period between January 1, 2020, and March 31, 2020.

The SBA states the Form 3508EZ application requires fewer calculations and less documentation. Both applications note that borrowers can use the original 8-week covered period (if the PPP loan was made before June 5, 2020) or the extended 24-week covered period, if that is the borrower's preference.⁷²

Example 6. Phil Sellingfast is a self-employed real estate agent, with no employees. His 2019 net profit from his real estate activities was \$250,000. Phil applied for a PPP loan on April 30, 2020. The maximum he was eligible to borrow was \$20,833 ($\$100,000 \div 12 \text{ months} \times 2.5$). Phil meets the criteria to utilize Form 3508EZ to apply for PPP loan forgiveness.

Example 7. Use the same facts as **Example 6**, except Phil also employs Mary as his office manager at an annual salary of \$35,000. Even though COVID-19 affected his business, Phil paid Mary \$5,385 during the 8-week covered period that began when he received his PPP loan in April 2020. This is the same amount she was paid prior to COVID-19 ($\$35,000 \text{ annual salary} \div 52 \text{ weeks} \times 8 \text{ weeks} = \$5,385$). Phil is eligible to use Form 3508EZ to apply for PPP loan forgiveness because he did not reduce Mary's pay by more than 25% compared to the amount she was paid prior to the pandemic.

Example 8. Use the same facts as **Example 7**. Use the same facts as **Example 6**, except Phil did not keep Mary on staff. Instead, he laid her off on May 1, 2020, so she could collect unemployment benefits. Phil's business activity in 2020 appears to be on pace to exceed his 2019 results. Phil is not eligible to use Form 3508EZ to calculate his PPP loan forgiveness because he did reduce salaries by more than 25% and he did not experience a COVID-19-related reduction in business income.

Note. It may have been preferable for Phil to pay Mary for the covered period and then lay her off if his goal was to maximize the amount of expenses eligible for forgiveness.

Loan Forgiveness and Deductibility of Expenses

Under the PPP, loan proceeds used to fund the first eight weeks (or 24 weeks as permitted by the PPPFA) of qualifying expenses may be forgiven, with any forgiven amounts excluded from the gross income of the loan recipient. The CARES Act did not explicitly address whether the borrower could also deduct the eligible expenses paid using PPP loan proceeds that is then forgiven. The IRS issued Notice 2020-32⁷³ to address the effect of covered loan forgiveness on the deductibility of corresponding business expenses.

Specifically, the IRS provided that income resulting from PPP loan forgiveness should be classified as "exempt income" under IRC §265. IRS Notice 2020-32 clarifies that otherwise deductible business expenses are disallowed to the extent of the resulting covered loan forgiveness because such payment is allocable to tax-exempt income.

⁷² SBA and Treasury Announce New EZ and Revised Full Forgiveness Applications for the Paycheck Protection Program. Jun. 18, 2020. U.S. Small Business Administration. [www.sba.gov/article/2020/jun/18/sba-treasury-announce-new-ez-revised-full-forgiveness-applications-paycheck-protection-program] Accessed on Sep. 4, 2020.

⁷³ IRS Notice 2020-32, 2020-21 IRB 837.

2020 Workbook

Comprehensive Example

Example 9. Big Sky Consultants, LLC provides business valuation services to the hospitality industry. In 2019, the company employed five workers. Due to the COVID-19 outbreak, their main source of revenue was decimated. Of the five employees, four earn in excess of \$100,000 per year. The fifth employee, Jim Smith, earned \$70,417 in 2019. Big Sky was able to secure a PPP loan of \$98,003 on July 31, 2020, to help it weather the economic downturn due to the pandemic. The loan amount was calculated as follows.

	Calculation	Amount
Jim Smith's average monthly payroll in 2019	$\$70,417 \div 12 \text{ months}$	\$5,868
Salary for the other employees earning over \$100,000	$\$100,000 \text{ annual maximum} \times 4 \text{ employees} \div 12 \text{ months}$	<u>33,333</u>
Average monthly payroll for 2019		\$39,201
Multiplied by 2.5		<u>$\times 2.5$</u>
Maximum PPP loan amount		\$98,003

The business outlook for the company, however, remained bleak. After receiving the PPP funds, Big Sky only paid Jim Smith his normal salary. The other four employees agreed to be paid \$10,000 during the 24-week covered period so funds would be available for other business needs. In 2019, each of the four employees earned in excess of \$100,000 per year.

The covered period is July 31, 2020, to December 31, 2020. During that time, monthly mortgage interest payments were \$1,000, monthly rental payments were \$360, and monthly utility costs were \$330. In addition, the company provided health insurance for its employees at a cost of \$2,000 per month per employee and contributed 3% of each employee's payroll as a safe harbor pension plan.

Eager to have the PPP loan forgiven, the following PPP loan forgiveness form was completed by the company in late December 2020. The officers of Big Sky Consultants were disappointed to learn that their application actually resulted in no forgiveness. This outcome is explained later.

2020 Workbook



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

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")	DBA or Tradename, if applicable	
Big Sky Consultants LLC		
Business Address	Business TIN (EIN, SSN)	Business Phone
123 N Neil	35-1234567	(217) 333 - 3333
Champaign, IL 61820	Primary Contact	E-mail Address
	Joe Deen	bigsky@email.com

SBA PPP Loan Number: 123456789 Lender PPP Loan Number: 987654321

PPP Loan Amount: \$98,003 PPP Loan Disbursement Date: 07/31/2020

Employees at Time of Loan Application: 5 Employees at Time of Forgiveness Application: 5

EIDL Advance Amount: _____ EIDL Application Number: 3456789

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

Weekly Biweekly (every other week) Twice a month Monthly Other _____

Covered Period: 07/31/2020 to 12/31/2020

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): _____ \$89,463

Line 2. Business Mortgage Interest Payments: _____ \$5,000

Line 3. Business Rent or Lease Payments: _____ \$1,800

Line 4. Business Utility Payments: _____ \$1,650

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): _____ **\$98,460**

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5: _____ -\$547

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13): _____ 1.0

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7): _____ -\$547

Line 9. PPP Loan Amount: _____ \$98,003

Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60): _____ \$149,105

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10): _____ **\$0**

2020 Workbook



Paycheck Protection Program Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The authorized representative of the Borrower certifies to all of the below by **initialing** next to each one.

- JD The dollar amount for which forgiveness is requested:
- was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes all applicable reductions due to decreases in the number of full-time equivalent employees and salary/hourly wage reductions;
 - includes payroll costs equal to at least 60% of the forgiveness amount;
 - if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
 - if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
- JD I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
- JD The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.
- JD I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
- JD The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 U.S.C. 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 U.S.C. 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 U.S.C. 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- JD The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
- JD I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.
- JD If the Borrower has checked the box for FTE Reduction Safe Harbor 1 on PPP Schedule A, the Borrower was 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 of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

_____ Signature of Authorized Representative of Borrower	08/28/2020 Date
Joe Deen Print Name	President Title

2020 Workbook



Paycheck Protection Program Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____ \$72,500

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____ 5

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1: _____ \$98,460
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.

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2: _____ 0

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2: _____ 0

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

Line 6. Total amount paid or incurred by Borrower for employer contributions for employee health insurance: _____ \$10,000

Line 7. Total amount paid or incurred by Borrower for employer contributions to employee retirement plans: _____ \$6,513

Line 8. Total amount paid or incurred by Borrower for employer state and local taxes assessed on employee compensation: _____ \$450

Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners: _____ 0
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): _____ \$89,463

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: _____ 5

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

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if any of the above criteria are met: _____ 1.0

2020 Workbook



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

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
Mary Jones	333333333	10,000	1	24,615
Jim Smith	444444444	32,500	1	0
Willie Jackson	222222222	10,000	1	24,615
Joe Deen	555443333	10,000	1	24,615
Mason Deen	333445678	10,000	1	24,615
FTE Reduction Exceptions:				
Totals:		Box 1 \$72,500	Box 2 5	Box 3 98,460

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

Attach additional tables if additional rows are needed.

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:
0 _____.
- 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: 5 _____.
- 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: 5 _____.
- 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.

2020 Workbook

Salary/Hourly Wage Reduction: This calculation will be used to determine whether the Borrower's loan forgiveness amount must be reduced due to a statutory requirement concerning reductions in employee salary and wages. Borrowers are eligible for loan forgiveness for certain expenditures during the Covered Period or the Alternative Payroll Covered Period. However, the actual amount of loan forgiveness the Borrower will receive may be less, depending on whether the salary or hourly wages of certain employees during the Covered Period or the Alternative Payroll Covered Period was less than during the period from January 1, 2020 to March 31, 2020. If the Borrower restored salary/hourly wage levels, the Borrower may be eligible for elimination of the Salary/Hourly Wage Reduction amount. Borrowers must complete this worksheet to determine whether to reduce the amount of loan forgiveness for which they are eligible. Complete the Salary/Hour Wage Reduction column only for employees whose salaries or hourly wages were reduced by more than 25% during the Covered Period or the Alternative Payroll Covered Period as compared to the period of January 1, 2020 through March 31, 2020. For each employee listed in Table 1, complete the following (using salary for salaried employees and hourly wage for hourly employees):

Step 1. Determine if pay was reduced more than 25%.

- a. Enter average annual salary or hourly wage during Covered Period or Alternative Payroll Covered Period:
\$21,667
- b. Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020: \$100,000
- c. Divide the value entered in 1.a. by 1.b.: 21.667%
If 1.c. is 0.75 or more, enter zero in the column above box 3 for that employee; otherwise proceed to Step 2.

Step 2. Determine if the Salary/Hourly Wage Reduction Safe Harbor is met.

- a. Enter the annual salary or hourly wage as of February 15, 2020: \$100,000
- b. Enter the average annual salary or hourly wage between February 15, 2020 and April 26, 2020:
\$21,667
If 2.b. is equal to or greater than 2.a., skip to Step 3. Otherwise, proceed to 2.c.
- c. Enter the average annual salary or hourly wage as of the earlier of December 31, 2020 and the date this application is submitted: \$21,667
If 2.c. is equal to or greater than 2.a., the Salary/Hourly Wage Reduction Safe Harbor has been met – enter zero in the column above box 3 for that employee. Otherwise proceed to Step 3.

Step 3. Determine the Salary/Hourly Wage Reduction.

- a. Multiply the amount entered in 1.b. by 0.75: \$75,000
- b. Subtract the amount entered in 1.a. from 3.a.: \$53,333

If the employee is an hourly worker, compute the total dollar amount of the reduction that exceeds 25% as follows:

SBA Form 3508 (06/20)

Page 4



Paycheck Protection Program Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

- c. Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020:

- d. Multiply the amount entered in 3.b. by the amount entered in 3.c. _____. Multiply this amount by 24 (if Borrower is using a 24-week Covered Period) or 8 (if Borrower is using an 8-week Covered Period): _____. Enter this value in the column above box 3 for that employee.

If the employee is a salaried worker, compute the total dollar amount of the reduction that exceeds 25% as follows:

- e. Multiply the amount entered in 3.b. by 24 (if Borrower is using a 24-week Covered Period) or 8 (if Borrower is using an 8-week Covered Period): \$1,279,992. Divide this amount by 52: \$24,615. Enter this value in the column above box 3 for that employee.

2020 Workbook

Notes to PPP Schedule A Worksheet

Jim Smith's cash compensation of \$32,500 was calculated by taking his annual salary of \$70,417, dividing it by 52 weeks, and then multiplying that result by the weeks in the covered period, which is 24 ($\$70,417 \div 52 \times 24 = \$32,500$).

The **salary/hourly wage reduction** factors for each employee were calculated as follows.

Step 1

- a. Each employee who earned \$10,000 during the covered period earned an average annual salary during the covered period of \$21,667 ($\$10,000 \div 24 \text{ weeks in the covered period} \times 52 \text{ weeks in the year} = \$21,667$).
- b. The average annual salary for each of the four employees in question between January 1 and March 31, 2020, was \$100,000.
- c. The amount in Step 1(a) is divided by the amount in Step 1(b), which results in 21.667%

Step 2

- a. The annual salary as of February 15, 2020 was \$100,000.
- b. The average annual salary between February 15, 2020, and April 26, 2020, was \$21,667 (from Step 1).
- c. The average salary from Step 2(b) is less than the amount from Step 2(a); therefore, Step 3 must be completed.

Step 3

- a. The amount in Step 1(b) is multiplied by 0.75, which is \$75,000 ($\$100,000 \times 0.75$).
- b. The amount in Step 1(a) is subtracted from the amount in Step 3(a), which results in \$53,333 ($\$75,000 - \$21,667$).
- c. Not applicable
- d. Not applicable
- e. The amount in Step 3(b) is multiplied by 24, which equals \$1,279,992 ($\$53,333 \times 24$). This amount is then divided by 52 and the result (\$24,615) is entered in the "Salary/Hourly Wage Reduction" column for each employee other than Jim Smith.

Observations for Example 9

- The borrowers likely believed they would be eligible for full PPP loan forgiveness because at least 60% of the PPP loan proceeds were used for payroll and nearly all the funds were used for qualified expenses. However, the four employees who earned \$100,000 in 2019 agreed to accept payroll reductions of more than 25%. The result was that **none** of the PPP loan amount is eligible for forgiveness.
- The borrowers would have been in a better position if they attempted to at least maintain pre-pandemic payroll levels to avoid a greater than 25% payroll reduction.
- As mentioned at the outset of this section, the goal of the PPP program was to provide the resources for businesses to continue to pay their employees. This goal was not met and the result is that no loan forgiveness is available.

2020 Workbook

APPENDIX

INSTRUCTIONS FOR SBA FORM 3508EZ



Paycheck Protection Program
PPP Loan Forgiveness Application Form 3508EZ

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

PPP LOAN FORGIVENESS APPLICATION FORM 3508EZ INSTRUCTIONS FOR BORROWERS

Checklist for Using SBA Form 3508EZ

You (the Borrower) can apply for forgiveness of your Paycheck Protection Program (PPP) loan using this SBA Form 3508EZ if you can check at least one of the three boxes below. Do not submit this Checklist with your SBA Form 3508EZ.

- 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 did not include any employee salaries in the computation of average monthly payroll in the Borrower Application Form (SBA Form 2483).

- The Borrower did not reduce annual salary or hourly wages of any employee by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period (as defined below) compared to the period between January 1, 2020 and March 31, 2020 (for purposes of this statement, "employees" means only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000);
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. (Ignore reductions that arose from an inability to rehire individuals who were employees on February 15, 2020 if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020. Also ignore reductions in an employee's hours that the Borrower offered to restore and the employee refused. See [85 FR 33004](#), 33007 (June 1, 2020) for more details.

- The Borrower did not reduce annual salary or hourly wages of any employee by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period (as defined below) compared to the period between January 1, 2020 and March 31, 2020 (for purposes of this statement, "employees" means only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000);
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 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 check at least one of the three boxes above, complete this SBA Form 3508EZ in accordance with the instructions below, and **submit it to your Lender** (or the Lender that is servicing your loan). Borrowers may also complete this application electronically through their Lender. If you are unable to check one of the boxes above, you cannot use SBA Form 3508EZ and instead you must apply for forgiveness of your PPP loan using SBA Form 3508.

Instructions for PPP Loan Forgiveness Calculation Form 3508EZ

Business Legal Name ("Borrower")/DBA or Tradename (if applicable)/Business TIN (EIN, SSN): Enter the same information as on your Borrower Application Form (SBA Form 2483 or lender's equivalent).

Business Address/Business Phone/Primary Contact/E-mail Address: Enter the same information as on your Borrower Application Form, unless there has been a change in address or contact information.

SBA PPP Loan Number: Enter the loan number assigned by SBA at the time of loan approval. Request this number from the Lender if necessary.

Lender PPP Loan Number: Enter the loan number assigned to the PPP loan by the Lender.

PPP Loan Amount: Enter the disbursed principal amount of the PPP loan (the total loan amount you received from the Lender).

Employees at Time of Loan Application: Enter the total number of employees at the time of the PPP Loan Application.

Employees at Time of Forgiveness Application: Enter the total number of employees at the time the Borrower is applying for loan forgiveness.

PPP Loan Disbursement Date: Enter the date that you received the PPP loan proceeds from the Lender. If loan proceeds were received on more than one date, enter the first date on which you received PPP loan proceeds.

2020 Workbook



Paycheck Protection Program PPP Loan Forgiveness Application Form 3508EZ

EIDL Advance Amount: If the Borrower received an Economic Injury Disaster Loan (EIDL) advance, enter the amount.

EIDL Application Number: If the Borrower applied for an EIDL, enter the Borrower's EIDL Application Number.

Payroll Schedule: Select the box that corresponds to your payroll schedule.

Covered Period: The Covered Period is either: (1) the 24-week (168-day) period beginning on the PPP Loan Disbursement Date, or (2) if the Borrower received its PPP loan before June 5, 2020, the Borrower may elect to use an eight-week (56-day) Covered Period. For example, if the Borrower is using a 24-week Covered Period and received its PPP loan proceeds on Monday, April 20, the first day of the Covered Period is April 20 and the last day of the Covered Period is Sunday, October 4. In no event may the Covered Period extend beyond December 31, 2020.

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 24-week (168-day) period or for loans received before June 5, 2020 at the election of the borrower, the eight-week (56-day) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date. For example, if the Borrower is using a 24-week Alternative Payroll Covered Period and 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, October 10. Borrowers that elect to use the Alternative Payroll Covered Period must apply the Alternative Payroll Covered Period wherever there is a reference in this application to "the Covered Period or the Alternative Payroll Covered Period." However, Borrowers must apply the Covered Period (not the Alternative Payroll Covered Period) wherever there is a reference in this application to "the Covered Period" only. In no event may the Alternative Payroll Covered Period extend beyond December 31, 2020.

If Borrower Received PPP Loans in Excess of \$2 Million: Check the box if the Borrower, together with its affiliates (to the extent required under SBA's interim final rule on affiliates ([85 FR 20817](#) (April 15, 2020))) and not waived under 15 U.S.C. 636(a)(36)(D)(iv)), received PPP loans with an original principal amount in excess of \$2 million.

Forgiveness Amount Calculation (see Summary of Costs Eligible for Forgiveness below):

Line 1: Enter total eligible payroll costs incurred or paid during the Covered Period or the Alternative Payroll Covered Period. To calculate these costs, sum the following:

Cash Compensation: The sum of gross salary, gross wages, gross tips, gross commissions, paid leave (vacation, family, medical or sick leave, not including leave covered by the Families First Coronavirus Response Act), and allowances for dismissal or separation paid or incurred during the Covered Period or the Alternative Payroll Covered Period. For each individual employee, the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000, as prorated for the Covered Period. For an 8-week Covered Period, that total is \$15,385. For a 24-week Covered Period, that total is \$46,154 for purposes of this 3508EZ. You can only include compensation of employees who were employed by the Borrower at any point during the Covered Period or Alternative Payroll Covered Period and whose principal place of residence is in the United States.

Employee Benefits: The total amount paid by the Borrower for:

1. Employer contributions for employee health insurance, including employer contributions to a self-insured, employer-sponsored group health plan, but excluding any pre-tax or after-tax contributions by employees. Do not add employer health insurance contributions made on behalf of a self-employed individual, general partners, or owner-employees of an S-corporation, because such payments are already included in their compensation.
2. Employer contributions to employee retirement plans, excluding any pre-tax or after-tax contributions by employees. Do not add employer retirement contributions made on behalf of a self-employed individual or general partners, because such payments are already included in their compensation, and contributions on behalf of owner-employees are capped at 2.5 months' worth of the 2019 contribution amount.
3. Employer state and local taxes paid by the borrower and assessed on employee compensation (e.g., state unemployment insurance tax), excluding any taxes withheld from employee earnings.

Owner Compensation: Enter any amounts paid to owners (owner-employees, a self-employed individual, or general partners). For a 24-week Covered Period, this amount is capped at \$20,833 (the 2.5-month equivalent of \$100,000 per year) for each individual or the 2.5-month equivalent of their applicable compensation in 2019, whichever is lower. For an 8-week Covered Period, this amount is capped at 8/52 of 2019 compensation (up to \$15,385).

Line 2: Enter the amount of business mortgage interest payments paid or incurred during the Covered Period for any business mortgage obligation on real or personal property incurred before February 15, 2020. Do not include prepayments.

2020 Workbook



Paycheck Protection Program PPP Loan Forgiveness Application Form 3508EZ

Line 3: Enter the amount of business rent or lease payments paid or incurred for real or personal property during the Covered Period, pursuant to lease agreements in force before February 15, 2020.

Line 4: Enter the amount of business utility payments paid or incurred during the Covered Period, for business utilities for which service began before February 15, 2020.

NOTE: For lines 2-4, you are not required to report payments that you do not want to include in the forgiveness amount.

Line 5: Add lines 1 through 4, enter the total.

Line 6: Enter the PPP Loan Amount.

Line 7: Divide the amount on line 1 by 0.60, and enter the amount. This determines whether at least 60% of the potential forgiveness amount was used for payroll costs.

Line 8: Enter the smallest of lines 5, 6, or 7. Note: If applicable, SBA will deduct EIDL Advance Amounts from the forgiveness amount remitted to the Lender.

Summary of Costs Eligible for Forgiveness:

Borrowers are eligible for loan forgiveness for the following costs:

1. **Eligible payroll costs.** Borrowers are generally eligible for forgiveness for the payroll costs paid and payroll costs incurred during the 24-week (168-day) or 8-week (56-day) Covered Period (or Alternative Payroll Covered Period) (“payroll costs”). Payroll costs are considered paid on the day that paychecks are distributed or the Borrower originates an ACH credit transaction. Payroll costs are considered incurred on the day that the employee’s pay is earned. Payroll costs incurred but not paid during the Borrower’s last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if paid on or before the next regular payroll date. Otherwise, payroll costs must be paid during the Covered Period (or Alternative Payroll Covered Period). For each individual employee, the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000, as prorated for the Covered Period. Count payroll costs that were both paid and incurred only once. For information on what qualifies as payroll costs, see Interim Final Rule on Paycheck Protection Program posted on April 2, 2020 ([85 FR 20811](#)), as amended by the Revisions to First Interim Final Rule, posted on June 11, 2020). Include only payroll costs for employees whose principal place of residence is in the United States.
2. **Eligible nonpayroll costs.** Nonpayroll costs eligible for forgiveness consist of:
 - (a) covered mortgage obligations: payments of mortgage 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, telephone, transportation, or internet access for which service began before February 15, 2020 (“business utility payments”).

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 40% of the total forgiveness amount. Count nonpayroll costs that were both paid and incurred only once.

2020 Workbook



Paycheck Protection Program PPP Loan Forgiveness Application Form 3508EZ

Documents that Each Borrower Must Submit with its PPP Loan Forgiveness Application Form 3508EZ

PPP Loan Forgiveness Calculation Form 3508EZ

Payroll: Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period consisting of each of the following:

- 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.
- d. If you checked only the second box on the checklist on page 1 of these instructions, the average number of full-time equivalent employees on payroll employed by the Borrower on January 1, 2020 and at the end of the Covered Period.

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

Documents that Each Borrower Must Maintain but is Not Required to Submit

Documentation supporting the certification that annual salaries or hourly wages were not reduced by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period relative to the period between January 1, 2020 and March 31, 2020. This documentation must include payroll records that separately list each employee and show the amounts paid to each employee during the period between January 1, 2020 and March 31, 2020, and the amounts paid to each employee during the Covered Period or Alternative Payroll Covered Period.

Documentation regarding any employee job offers and refusals, refusals to accept restoration of reductions in hours, firings for cause, voluntary resignations, written requests by any employee for reductions in work schedule, and any inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020.

Documentation supporting the certification, if applicable, that 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 (other than any reductions that arose from an inability to rehire individuals who were employees on February 15, 2020, if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020). This documentation must include payroll records that separately list each employee and show the amounts paid to each employee between January 1, 2020 and the end of the Covered Period.

Documentation supporting the certification, if applicable, that the Borrower was 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 of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19. This documentation must include copies of the applicable requirements for each borrower location and relevant borrower financial records.

All records relating to the Borrower's PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower's certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower's loan forgiveness application, and documentation demonstrating the Borrower's material compliance with PPP requirements. The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

2020 Workbook

SBA FORM 3508EZ



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:

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs: _____

Line 2. Business Mortgage Interest Payments: _____

Line 3. Business Rent or Lease Payments: _____

Line 4. Business Utility Payments: _____

Potential Forgiveness Amounts

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

Line 6. PPP Loan Amount: _____

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

Forgiveness Amount

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

2020 Workbook



Paycheck Protection Program PPP Loan Forgiveness Application Form 3508EZ

By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The Authorized Representative of the Borrower certifies to all of the below by **initialing** next to each one.

- _____ The dollar amount for which forgiveness is requested:
- was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes payroll costs equal to at least 60% of the forgiveness amount;
 - if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
 - if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.

_____ I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.

_____ The Borrower did not reduce salaries or hourly wages by more than 25 percent for any employee during the Covered Period or Alternative Payroll Covered Period compared to the period between January 1, 2020 and March 31, 2020. For purposes of this certification, the term "employee" includes only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000.

_____ The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.

_____ I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.

_____ The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.

_____ The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.

_____ I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.

In addition, the Authorized Representative of the Borrower must certify by **initialing at least ONE** of the following two items:

_____ 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 (other than any reductions that arose from an inability to rehire individuals who were employees on February 15, 2020, if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020, and reductions in an employee's hours that a borrower offered to restore and were refused).

_____ The Borrower was 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 of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

Signature of Authorized Representative of Borrower

Date

Print Name
SBA Form 3508EZ (06/20)
Page 2

Title

2020 Workbook



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

PPP Borrower Demographic Information Form (Optional)

Instructions

1. **Purpose.** Veteran/gender/race/ethnicity data is collected for program reporting purposes only.
2. **Description.** This form requests information about each of the Borrower’s Principals. Add additional sheets if necessary.
3. **Definition of Principal.** The term “Principal” means:
 - For a self-employed individual, independent contractor, or a sole proprietor, the self-employed individual, independent contractor, or sole proprietor.
 - For a partnership, all general partners and all limited partners owning 20% or more of the equity of the Borrower, or any partner that is involved in the management of the Borrower’s business.
 - For a corporation, all owners of 20% or more of the Borrower, and each officer and director.
 - For a limited liability company, all members owning 20% or more of the Borrower, and each officer and director.
 - Any individual hired by the Borrower to manage the day-to-day operations of the Borrower (“key employee”).
 - Any trustor (if the Borrower is owned by a trust).
 - For a nonprofit organization, the officers and directors of the Borrower.
4. **Principal Name.** Insert the full name of the Principal.
5. **Position.** Identify the Principal’s position; for example, self-employed individual; independent contractor; sole proprietor; general partner; owner; officer; director; member; or key employee.

Principal Name		Position
Veteran	1=Non-Veteran; 2=Veteran; 3=Service-Disabled Veteran; 4=Spouse of Veteran; X=Not Disclosed	
Gender	M=Male; F=Female; X=Not Disclosed	
Race (more than 1 may be selected)	1=American Indian or Alaska Native; 2=Asian; 3=Black or African-American; 4=Native Hawaiian or Pacific Islander; 5=White; X=Not Disclosed	
Ethnicity	H=Hispanic or Latino; N=Not Hispanic or Latino; X=Not Disclosed	

Disclosure is voluntary and will have no bearing on the loan forgiveness decision

Paperwork Reduction Act – You are not required to respond to this collection of information unless it displays a currently valid OMB Control Number. The estimated time for completing this application, including gathering data needed, is 20 minutes. Comments about this time or the information requested should be sent to Small Business Administration, Director, Records Management Division, 409 3rd St., SW, Washington DC 20416, and/or SBA Desk Officer, Office of Management and Budget, New Executive Office Building, Washington DC 20503. **PLEASE DO NOT SEND FORMS TO THESE ADDRESSES.**

SBA Form 3508EZ (06/20)
Page 3

2020 Workbook

INSTRUCTIONS FOR SBA FORM 3508



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

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

LOAN FORGIVENESS APPLICATION INSTRUCTIONS FOR BORROWERS

To apply for forgiveness of your Paycheck Protection Program (PPP) loan, you (the Borrower) may use the Form 3508EZ application or complete this application as directed in these instructions, and **submit it to your Lender** (or the Lender that is servicing your loan). Borrowers may also complete their application electronically through their Lender.

This application has the following components: (1) the PPP Loan Forgiveness Calculation Form; (2) PPP Schedule A; (3) the PPP Schedule A Worksheet; and (4) the (optional) PPP Borrower Demographic Information Form. All Borrowers must submit (1) and (2) to their Lender.

Instructions for PPP Loan Forgiveness Calculation Form

Business Legal Name (“Borrower”)/DBA or Tradename (if applicable)/Business TIN (EIN, SSN): Enter the same information as on your Borrower Application Form (SBA Form 2483 or lender’s equivalent).

Business Address/Business Phone/Primary Contact/E-mail Address: Enter the same information as on your Borrower Application Form, unless there has been a change in address or contact information.

SBA PPP Loan Number: Enter the loan number assigned by SBA at the time of loan approval. Request this number from the Lender if necessary.

Lender PPP Loan Number: Enter the loan number assigned to the PPP loan by the Lender.

PPP Loan Amount: Enter the disbursed principal amount of the PPP loan (the total loan amount you received from the Lender).

Employees at Time of Loan Application: Enter the total number of employees at the time of the Borrower’s PPP Loan Application.

Employees at Time of Forgiveness Application: Enter the total number of employees at the time the Borrower is applying for loan forgiveness.

PPP Loan Disbursement Date: Enter the date that you received the PPP loan proceeds from the Lender. If loan proceeds were received on more than one date, enter the first date on which you received PPP loan proceeds.

EIDL Advance Amount: If the Borrower received an Economic Injury Disaster Loan (EIDL) advance, enter the amount.

EIDL Application Number: If the Borrower applied for an EIDL, enter the Borrower’s EIDL Application Number.

Payroll Schedule: Select the box that corresponds to your payroll schedule.

Covered Period: The Covered Period is either (1) the 24-week (168-day) period beginning on the PPP Loan Disbursement Date, or (2) if the Borrower received its PPP loan before June 5, 2020, the Borrower may elect to use an eight-week (56-day) Covered Period. For example, if the Borrower is using a 24-week Covered Period and received its PPP loan proceeds on Monday, April 20, the first day of the Covered Period is April 20 and the last day of the Covered Period is Sunday, October 4. In no event may the Covered Period extend beyond December 31, 2020.

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 24-week (168-day) period (or for loans received before June 5, 2020 at the election of the borrower, the eight-week (56-day) period) that begins on the first day of their first pay period following their PPP Loan Disbursement Date. For example, if the Borrower is using a 24-week Alternative Payroll Covered Period and 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, October 10. Borrowers that elect to use the Alternative Payroll Covered Period must apply the Alternative Payroll Covered Period wherever there is a reference in this application to “the Covered Period or the Alternative Payroll Covered Period.” However, Borrowers must apply the Covered Period (not the Alternative Payroll Covered Period) wherever there is a reference in this application to “the Covered Period” only. In no event may the Alternative Payroll Covered Period extend beyond December 31, 2020.

If Borrower Received PPP Loans in Excess of \$2 Million: Check the box if the Borrower, together with its affiliates (to the extent required under SBA’s interim final rule on affiliates ([85 FR 20817](#) (April 15, 2020)) and not waived under 15 U.S.C. 636(a)(36)(D)(iv)), received PPP loans with an original principal amount in excess of \$2 million.

2020 Workbook



Paycheck Protection Program Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

Forgiveness Amount Calculation (see Summary of Costs Eligible for Forgiveness below):

Line 1: Enter total eligible payroll costs incurred or paid during the Covered Period or the Alternative Payroll Covered Period. To calculate these costs, complete PPP Schedule A. Enter the amount from PPP Schedule A, line 10.

Line 2: Enter the amount of business mortgage interest payments paid or incurred during the Covered Period for any business mortgage obligation on real or personal property incurred before February 15, 2020. Do not include prepayments.

Line 3: Enter the amount of business rent or lease payments paid or incurred for real or personal property during the Covered Period, pursuant to lease agreements in force before February 15, 2020.

Line 4: Enter the amount of business utility payments paid or incurred during the Covered Period, for business utilities for which service began before February 15, 2020.

NOTE: For lines 2-4, you are not required to report payments that you do not want to include in the forgiveness amount.

Line 5: Enter the number from PPP Schedule A, line 3. This amount reflects the loan forgiveness reduction required for salary/hourly wage reductions in excess of 25% for certain employees as described in PPP Schedule A.

Line 6: Add lines 1 through 4, subtract line 5, enter the total. If this amount is less than zero, enter a zero.

Line 7: Enter the number from PPP Schedule A, line 13.

Line 8: Enter the amount on line 6 multiplied by the amount on line 7. This calculation incorporates the loan forgiveness reduction required for any full-time equivalency (FTE) employee reductions as described in PPP Schedule A.

Line 9: Enter the PPP Loan Amount.

Line 10: Divide the amount on line 1 by 0.60, and enter the amount. This determines whether at least 60% of the potential forgiveness amount was used for payroll costs.

Line 11: Enter the smallest of lines 8, 9, or 10. Note: If applicable, SBA will deduct EIDL Advance Amounts from the forgiveness amount remitted to the Lender.

Summary of Costs Eligible for Forgiveness:

Borrowers are eligible for loan forgiveness for the following costs:

- 1. Eligible payroll costs.** Borrowers are generally eligible for forgiveness for the payroll costs paid and payroll costs incurred during the 24-week (168-day) or 8-week (56-day) Covered Period (or Alternative Payroll Covered Period) ("payroll costs"). Payroll costs are considered paid on the day that paychecks are distributed or the Borrower originates an ACH credit transaction. Payroll costs are considered incurred on the day that the employee's pay is earned. Payroll costs incurred but not paid during the Borrower's last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if paid on or before the next regular payroll date. Otherwise, payroll costs must be paid during the Covered Period (or Alternative Payroll Covered Period). For each individual employee, the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000, as prorated for the Covered Period. Count payroll costs that were both paid and incurred only once. For information on what qualifies as payroll costs, see Interim Final Rule on Paycheck Protection Program posted on April 2, 2020 ([85 FR 20811](#)) (as amended by the Revisions to First Interim Final Rule, posted on June 11, 2020). Include only payroll costs for employees whose principal place of residence is in the United States.
- 2. Eligible nonpayroll costs.** Nonpayroll costs eligible for forgiveness consist of:
 - (a) covered mortgage obligations: payments of mortgage 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, telephone, transportation, or internet access for which service began before February 15, 2020 ("business utility payments").

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 40% of the total forgiveness amount. Count nonpayroll costs that were both paid and incurred only once.

The amount of loan forgiveness the Borrower applies for may be subject to reductions as explained in PPP Schedule A.
SBA Form 3508 (06/20)

Page 2

2020 Workbook



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

**OMB Control Number 3245-0407
Expiration Date: 10/31/2020**

Instructions for PPP Schedule A

Lines 1 through 5: Enter the amounts from PPP Schedule A Worksheet Tables as directed.

Enter the amount from line 3 of PPP Schedule A on line 5 of the Loan Forgiveness Application Form.

For lines 6 through 9, during the Covered Period or the Alternative Payroll Covered Period:

Line 6: Enter the total amount paid by the Borrower for employer contributions for employee health insurance, including employer contributions to a self-insured, employer-sponsored group health plan, but excluding any pre-tax or after tax contributions by employees. Do not add employer health insurance contributions made on behalf of a self-employed individual, general partners, or owner-employees of an S-corporation, because such payments are already included in their compensation.

Line 7: Enter the total amount paid by the Borrower for employer contributions to employee retirement plans, excluding any pre-tax or after-tax contributions by employees. Do not add employer retirement contributions made on behalf of a self-employed individual or general partners, because such payments are already included in their compensation.

Line 8: Enter the total amount paid by the Borrower for employer state and local taxes assessed on employee compensation (e.g., state unemployment insurance tax); do not list any taxes withheld from employee earnings.

Line 9: Enter any amounts paid to owners (owner-employees, a self-employed individual, or general partners). For Borrowers using a 24-week Covered Period, this amount is capped at \$20,833 (the 2.5-month equivalent of \$100,000 per year) for each individual or the 2.5-month equivalent of their applicable compensation in 2019, whichever is lower. For Borrowers using an 8-week Covered Period, this amount is capped at \$15,385 (the eight-week equivalent of \$100,000 per year) for each individual or the eight-week equivalent of their applicable compensation in 2019, whichever is lower.

Line 10: Add lines 1, 4, 6, 7, 8, and 9. Enter this amount on line 1 on the PPP Loan Forgiveness Calculation Form.

Line 11: Enter the Borrower's total average weekly full-time equivalency (FTE) during the chosen reference period. For purposes of this calculation, the reference period is, at the Borrower's election, either (i) February 15, 2019 to June 30, 2019; (ii) January 1, 2020 to February 29, 2020; or (iii) in the case of seasonal employers, either of the preceding periods or any consecutive 12-week period between May 1, 2019 and September 15, 2019. For each employee, follow the same method that was used to calculate Average FTE on the PPP Schedule A Worksheet. Sum across all employees during the reference period and enter that total on this line.

The calculations on lines 11, 12, and 13 will be used to determine whether the Borrower's loan forgiveness amount must be reduced based on reductions in full-time equivalent employees, as required by the statute. Specifically, the actual loan forgiveness amount that the Borrower will receive may be reduced if the Borrower's average weekly FTE employees during the Covered Period (or the Alternative Payroll Covered Period) was less than during the Borrower's chosen reference period. The Borrower is exempt from such a reduction, and should skip lines 11 and 12, if any of the three criteria listed on PPP Schedule A under Full-Time Equivalency (FTE) Reduction Calculation has been met.

Line 12: Add lines 2 and 5.

Line 13: Divide line 12 by line 11 (or enter 1.0 if any of the three criteria listed on PPP Schedule A under Full-Time Equivalency (FTE) Reduction Calculation has been met). If more than 1.0, enter 1.0. Enter this amount on line 7 of the Loan Forgiveness Calculation Form.

2020 Workbook



Paycheck Protection Program Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

- c. Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020:
_____.
- d. Multiply the amount entered in 3.b. by the amount entered in 3.c. _____. Multiply this amount by 24 (if Borrower is using a 24-week Covered Period) or 8 (if Borrower is using an 8-week Covered Period): _____. Enter this value in the column above box 3 for that employee.
- If the employee is a salaried worker, compute the total dollar amount of the reduction that exceeds 25% as follows:
- e. Multiply the amount entered in 3.b. by 24 (if Borrower is using a 24-week Covered Period) or 8 (if Borrower is using an 8-week Covered Period): _____. Divide this amount by 52: _____. Enter this value in the column above box 3 for that employee.

FTE Reduction Exceptions: Indicate the FTE of (1) any positions for which the Borrower made a good-faith, written offer to rehire an individual who was an employee on February 15, 2020 and the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020; (2) any positions for which the Borrower made a good-faith, written offer to restore any reduction in hours, at the same salary or wages, during the Covered Period or the Alternative Covered Period and the employee rejected the offer, and (3) 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.

Boxes 1 through 5: Enter the sums of the amounts in each of the columns.

FTE Reduction Safe Harbors

Two separate safe harbors exempt certain borrowers from any loan forgiveness reduction based on a reduction in FTE employee levels:

1. The Borrower is exempt from the reduction in loan forgiveness based on a reduction in FTE employees described above if the Borrower, in good faith, is able to document that it was 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.
2. The Borrower is exempt from the reduction in loan forgiveness based on a reduction in FTE employees described above if both of the following conditions are met: (a) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (b) the Borrower then restored its FTE employee levels by not later than December 31, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.

2020 Workbook



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

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

Documents that Each Borrower Must Submit with its PPP Loan Forgiveness Application

PPP Loan Forgiveness Calculation Form

PPP Schedule A

Payroll: Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period consisting of each of the following:

- 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)).

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

- a. the average number of FTE employees on payroll per week employed by the Borrower between February 15, 2019 and June 30, 2019;
- b. the average number of FTE employees on payroll per week 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 week employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive 12-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.

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.

Documents that Each Borrower Must Maintain but is Not Required to Submit

PPP Schedule A Worksheet or its equivalent and the following:

- a. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
- b. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.
- c. Documentation regarding any employee job offers and refusals, refusals to accept restoration of reductions in hours, firings for cause, voluntary resignations, written requests by any employee for reductions in work schedule, and any inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020.
- d. Documentation supporting the certification, if applicable, that the Borrower was 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 of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19. This documentation must include copies of the applicable requirements for each borrower location and relevant borrower financial records.
- e. Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor 2.”

2020 Workbook



Paycheck Protection Program
Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

All records relating to the Borrower's PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower's certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower's loan forgiveness application, and documentation demonstrating the Borrower's material compliance with PPP requirements. The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

2020 Workbook

SBA FORM 3508



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

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

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:

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): _____

2020 Workbook



Paycheck Protection Program Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The authorized representative of the Borrower certifies to all of the below by **initialing** next to each one.

- _____ The dollar amount for which forgiveness is requested:
- was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes all applicable reductions due to decreases in the number of full-time equivalent employees and salary/hourly wage reductions;
 - includes payroll costs equal to at least 60% of the forgiveness amount;
 - if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
 - if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
- _____ I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
- _____ The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.
- _____ I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
- _____ The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 U.S.C. 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 U.S.C. 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 U.S.C. 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- _____ The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
- _____ I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.
- _____ If the Borrower has checked the box for FTE Reduction Safe Harbor 1 on PPP Schedule A, the Borrower was 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 of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

Signature of Authorized Representative of Borrower

Date

Print Name

Title

2020 Workbook



Paycheck Protection Program Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1: _____
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.

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2: _____

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2: _____

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

Line 6. Total amount paid or incurred by Borrower for employer contributions for employee health insurance: _____

Line 7. Total amount paid or incurred by Borrower for employer contributions to employee retirement plans: _____

Line 8. Total amount paid or incurred by Borrower for employer state and local taxes assessed on employee compensation: _____

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 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: _____

2020 Workbook



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

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

Attach additional tables if additional rows are needed.

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.

2020 Workbook



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

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Borrower Demographic Information Form (Optional)

Instructions

1. **Purpose.** Veteran/gender/race/ethnicity data is collected for program reporting purposes only.
2. **Description.** This form requests information about each of the Borrower’s Principals. Add additional sheets if necessary.
3. **Definition of Principal.** The term “Principal” means:
 - For a self-employed individual, independent contractor, or a sole proprietor, the self-employed individual, independent contractor, or sole proprietor.
 - For a partnership, all general partners and all limited partners owning 20% or more of the equity of the Borrower, or any partner that is involved in the management of the Borrower’s business.
 - For a corporation, all owners of 20% or more of the Borrower, and each officer and director.
 - For a limited liability company, all members owning 20% or more of the Borrower, and each officer and director.
 - Any individual hired by the Borrower to manage the day-to-day operations of the Borrower (“key employee”).
 - Any trustor (if the Borrower is owned by a trust).
 - For a nonprofit organization, the officers and directors of the Borrower.
4. **Principal Name.** Insert the full name of the Principal.
5. **Position.** Identify the Principal’s position; for example, self-employed individual; independent contractor; sole proprietor; general partner; owner; officer; director; member; or key employee.

Principal Name	Position
Veteran	1=Non-Veteran; 2=Veteran; 3=Service-Disabled Veteran; 4=Spouse of Veteran; X=Not Disclosed
Gender	M=Male; F=Female; X=Not Disclosed
Race (more than 1 may be selected)	1=American Indian or Alaska Native; 2=Asian; 3=Black or African-American; 4=Native Hawaiian or Pacific Islander; 5=White; X=Not Disclosed
Ethnicity	H=Hispanic or Latino; N=Not Hispanic or Latino; X=Not Disclosed

Disclosure is voluntary and will have no bearing on the loan forgiveness decision

Paperwork Reduction Act – You are not required to respond to this collection of information unless it displays a currently valid OMB Control Number. The estimated time for completing this application, including gathering data needed, is 180 minutes. Comments about this time or the information requested should be sent to Small Business Administration, Director, Records Management Division, 409 3rd St., SW, Washington DC 20416, and/or SBA Desk Officer, Office of Management and Budget, New Executive Office Building, Washington DC 20503. **PLEASE DO NOT SEND FORMS TO THESE ADDRESSES.**

2020 Workbook

SBA FAQs⁷⁴

As of August 11, 2020

PAYCHECK PROTECTION PROGRAM LOANS Frequently Asked Questions (FAQs)

The Small Business Administration (SBA), in consultation with the Department of the Treasury, intends to provide timely additional guidance to address borrower and lender questions concerning the implementation of the Paycheck Protection Program (PPP), established by section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act or the Act). This document will be updated on a regular basis.

Borrowers and lenders may rely on the guidance provided in this document as SBA's interpretation of the CARES Act and of the Paycheck Protection Program Interim Final Rules ("PPP Interim Final Rules") ([link](#)). The U.S. government will not challenge lender PPP actions that conform to this guidance,¹ and to the PPP Interim Final Rules and any subsequent rulemaking in effect at the time.

1. **Question:** Paragraph 3.b.iii of the PPP Interim Final Rule states that lenders must "[c]onfirm the dollar amount of average monthly payroll costs for the preceding calendar year by reviewing the payroll documentation submitted with the borrower's application." Does that require the lender to replicate every borrower's calculations?

Answer: No. Providing an accurate calculation of payroll costs is the responsibility of the borrower, and the borrower attests to the accuracy of those calculations on the Borrower Application Form. Lenders are expected to perform a good faith review, in a reasonable time, of the borrower's calculations and supporting documents concerning average monthly payroll cost. For example, minimal review of calculations based on a payroll report by a recognized third-party payroll processor would be reasonable. In addition, as the PPP Interim Final Rule indicates, lenders may rely on borrower representations, including with respect to amounts required to be excluded from payroll costs.

If the lender identifies errors in the borrower's calculation or material lack of substantiation in the borrower's supporting documents, the lender should work with the borrower to remedy the issue.²

2. **Question:** Are small business concerns (as defined in section 3 of the Small Business Act, 15 U.S.C. 632) required to have 500 or fewer employees to be eligible borrowers in the PPP?

Answer: No. Small business concerns can be eligible borrowers even if they have more than 500 employees, as long as they satisfy the existing statutory and regulatory definition of a "small business concern" under section 3 of the Small Business Act, 15 U.S.C. 632. A business can qualify if it meets the SBA employee-based or revenue-

¹ This document does not carry the force and effect of law independent of the statute and regulations on which it is based.

² Question 1 published April 3, 2020.

⁷⁴ *Paycheck Protection Program Loans, Frequently Asked Questions (FAQs)*. Aug. 11, 2020. SBA and Dept. of Treasury. [home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf] Accessed on Aug. 27, 2020.

2020 Workbook

As of August 11, 2020

based size standard corresponding to its primary industry. Go to www.sba.gov/size for the industry size standards.

Additionally, a business can qualify for the Paycheck Protection Program as a small business concern if it met both tests in SBA's "alternative size standard" as of March 27, 2020: (1) maximum tangible net worth of the business is not more than \$15 million; and (2) the average net income after Federal income taxes (excluding any carry-over losses) of the business for the two full fiscal years before the date of the application is not more than \$5 million.

A business that qualifies as a small business concern under section 3 of the Small Business Act, 15 U.S.C. 632, may truthfully attest to its eligibility for PPP loans on the Borrower Application Form, unless otherwise ineligible.

3. **Question:** Does my business have to qualify as a small business concern (as defined in section 3 of the Small Business Act, 15 U.S.C. 632) in order to participate in the PPP?

Answer: No. In addition to small business concerns, a business is eligible for a PPP loan if the business has 500 or fewer employees whose principal place of residence is in the United States, or the business meets the SBA employee-based size standards for the industry in which it operates (if applicable). Similarly, PPP loans are also available for qualifying tax-exempt nonprofit organizations described in section 501(c)(3) of the Internal Revenue Code (IRC), tax-exempt veterans organization described in section 501(c)(19) of the IRC, and Tribal business concerns described in section 31(b)(2)(C) of the Small Business Act that have 500 or fewer employees whose principal place of residence is in the United States, or meet the SBA employee-based size standards for the industry in which they operate.

4. **Question:** Are lenders required to make an independent determination regarding applicability of affiliation rules under 13 C.F.R. 121.301(f) to borrowers?

Answer: No. It is the responsibility of the borrower to determine which entities (if any) are its affiliates and determine the employee headcount of the borrower and its affiliates. Lenders are permitted to rely on borrowers' certifications.

5. **Question:** Are borrowers required to apply SBA's affiliation rules under 13 C.F.R. 121.301(f)?

Answer: Yes. Borrowers must apply the affiliation rules set forth in SBA's Interim Final Rule on Affiliation. A borrower must certify on the Borrower Application Form that the borrower is eligible to receive a PPP loan, and that certification means that the borrower is a small business concern as defined in section 3 of the Small Business Act (15 U.S.C. 632), meets the applicable SBA employee-based or revenue-based size standard, or meets the tests in SBA's alternative size standard, after applying the affiliation rules, if applicable. SBA's existing affiliation exclusions apply to the PPP, including, for example the exclusions under 13 CFR 121.103(b)(2).

2020 Workbook

As of August 11, 2020

6. **Question:** The affiliation rule based on ownership (13 C.F.R. 121.301(f)(1)) states that SBA will deem a minority shareholder in a business to control the business if the shareholder has the right to prevent a quorum or otherwise block action by the board of directors or shareholders. If a minority shareholder irrevocably gives up those rights, is it still considered to be an affiliate of the business?

Answer: No. If a minority shareholder in a business irrevocably waives or relinquishes any existing rights specified in 13 C.F.R. 121.301(f)(1), the minority shareholder would no longer be an affiliate of the business (assuming no other relationship that triggers the affiliation rules).

7. **Question:** The CARES Act excludes from the definition of payroll costs any employee compensation in excess of an annual salary of \$100,000. Does that exclusion apply to all employee benefits of monetary value?

Answer: No. The exclusion of compensation in excess of \$100,000 annually applies only to cash compensation, not to non-cash benefits, including:

- employer contributions to defined-benefit or defined-contribution retirement plans;
- payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums; and
- payment of state and local taxes assessed on compensation of employees.

8. **Question:** Do PPP loans cover paid sick leave?

Answer: Yes. PPP loans covers payroll costs, including costs for employee vacation, parental, family, medical, and sick leave. However, the CARES Act excludes qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116–127). Learn more about the Paid Sick Leave Refundable Credit [here](#).

9. **Question:** My small business is a seasonal business whose activity increases from April to June. Considering activity from that period would be a more accurate reflection of my business's operations. However, my small business was not fully ramped up on February 15, 2020. Am I still eligible?

Answer: In evaluating a borrower's eligibility, a lender may consider whether a seasonal borrower was in operation on February 15, 2020 or for an 8-week period between February 15, 2019 and June 30, 2019.

10. **Question:** What if an eligible borrower contracts with a third-party payer such as a payroll provider or a Professional Employer Organization (PEO) to process payroll and report payroll taxes?

Answer: SBA recognizes that eligible borrowers that use PEOs or similar payroll providers are required under some state registration laws to report wage and other data on

2020 Workbook

As of August 11, 2020

the Employer Identification Number (EIN) of the PEO or other payroll provider. In these cases, payroll documentation provided by the payroll provider that indicates the amount of wages and payroll taxes reported to the IRS by the payroll provider for the borrower's employees will be considered acceptable PPP loan payroll documentation. Relevant information from a Schedule R (Form 941), Allocation Schedule for Aggregate Form 941 Filers, attached to the PEO's or other payroll provider's Form 941, Employer's Quarterly Federal Tax Return, should be used if it is available; otherwise, the eligible borrower should obtain a statement from the payroll provider documenting the amount of wages and payroll taxes. In addition, employees of the eligible borrower will not be considered employees of the eligible borrower's payroll provider or PEO.

11. **Question:** May lenders accept signatures from a single individual who is authorized to sign on behalf of the borrower?

Answer: Yes. However, the borrower should bear in mind that, as the Borrower Application Form indicates, only an authorized representative of the business seeking a loan may sign on behalf of the business. An individual's signature as an "Authorized Representative of Applicant" is a representation to the lender and to the U.S. government that the signer is authorized to make the certifications, including with respect to the applicant and each owner of 20% or more of the applicant's equity, contained in the Borrower Application Form. Lenders may rely on that representation and accept a single individual's signature on that basis.

12. **Question:** I need to request a loan to support my small business operations in light of current economic uncertainty. However, I pleaded guilty to a felony crime a very long time ago. Am I still eligible for the PPP?

Answer: Eligibility for the PPP has been expanded. A business is ineligible due to an owner's criminal history only if an owner of 20 percent or more of the equity of the applicant:

- is presently incarcerated or, for any felony, is presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or
- has been convicted of, pleaded guilty or nolo contendere to, or commenced any form of parole or probation (including probation before judgment) for, a felony involving fraud, bribery, embezzlement, or a false statement in a loan application or an application for federal financial assistance within the last five years or any other felony within the last year.

13. **Question:** Are lenders permitted to use their own online portals and an electronic form that they create to collect the same information and certifications as in the Borrower Application Form, in order to complete implementation of their online portals?

Answer: Yes. Lenders may use their own online systems and a form they establish that asks for the same information (using the same language) as the Borrower Application Form. Lenders are still required to send the data to SBA using SBA's interface.

2020 Workbook

As of August 11, 2020

14. **Question:** What time period should borrowers use to determine their number of employees and payroll costs to calculate their maximum loan amounts?

Answer: In general, borrowers can calculate their aggregate payroll costs using data either from the previous 12 months or from calendar year 2019. For seasonal businesses, the applicant may use average monthly payroll for the period between February 15, 2019, or March 1, 2019, and June 30, 2019. An applicant that was not in business from February 15, 2019 to June 30, 2019 may use the average monthly payroll costs for the period January 1, 2020 through February 29, 2020.

Borrowers may use their average employment over the same time periods to determine their number of employees, for the purposes of applying an employee-based size standard. Alternatively, borrowers may elect to use SBA's usual calculation: the average number of employees per pay period in the 12 completed calendar months prior to the date of the loan application (or the average number of employees for each of the pay periods that the business has been operational, if it has not been operational for 12 months).

15. **Question:** Should payments that an eligible borrower made to an independent contractor or sole proprietor be included in calculations of the eligible borrower's payroll costs?

Answer: No. Any amounts that an eligible borrower has paid to an independent contractor or sole proprietor should be excluded from the eligible business's payroll costs. However, an independent contractor or sole proprietor will itself be eligible for a loan under the PPP, if it satisfies the applicable requirements.

16. **Question:** How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?

Answer: Under the Act, payroll costs are calculated on a gross basis without regard to (i.e., not including subtractions or additions based on) federal taxes imposed or withheld, such as the employee's and employer's share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer, but payroll costs do not include the employer's share of payroll tax. For example, an employee who earned \$4,000 per month in gross wages, from which \$500 in federal taxes was withheld, would count as \$4,000 in payroll costs. The employee would receive \$3,500, and \$500 would be paid to the federal government. However, the employer-side federal payroll taxes imposed on the \$4,000 in wages are excluded from payroll costs under the statute.³

³ The definition of "payroll costs" in the CARES Act, 15 U.S.C. 636(a)(36)(A)(viii), excludes "taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code of 1986 during the covered period," defined as February 15, 2020, to June 30, 2020. As described above, the SBA interprets this statutory exclusion to mean that payroll costs are calculated on a gross basis, without subtracting federal taxes that are imposed on the employee or

2020 Workbook

As of August 11, 2020

17. **Question:** I filed or approved a loan application based on the version of the PPP Interim Final Rule published on April 2, 2020. Do I need to take any action based on the updated guidance in these FAQs?

Answer: No. Borrowers and lenders may rely on the laws, rules, and guidance available at the time of the relevant application. However, borrowers whose previously submitted loan applications have not yet been processed may revise their applications based on clarifications reflected in these FAQs.

18. **Question:** Are PPP loans for existing customers considered new accounts for FinCEN Rule CDD purposes? Are lenders required to collect, certify, or verify beneficial ownership information in accordance with the rule requirements for existing customers?

Answer: If the PPP loan is being made to an existing customer and the necessary information was previously verified, you do not need to re-verify the information.

Furthermore, if federally insured depository institutions and federally insured credit unions eligible to participate in the PPP program have not yet collected beneficial ownership information on existing customers, such institutions do not need to collect and verify beneficial ownership information for those customers applying for new PPP loans, unless otherwise indicated by the lender's risk-based approach to BSA compliance.⁴

19. **Question:** Do lenders have to use a promissory note provided by SBA or may they use their own?

Answer: Lenders may use their own promissory note or an SBA form of promissory note.

withheld from employee wages. Unlike employer-side payroll taxes, such employee-side taxes are ordinarily expressed as a reduction in employee take-home pay; their exclusion from the definition of payroll costs means payroll costs should not be reduced based on taxes imposed on the employee or withheld from employee wages. This interpretation is consistent with the text of the statute and advances the legislative purpose of ensuring workers remain paid and employed. Further, because the reference period for determining a borrower's maximum loan amount will largely or entirely precede the period from February 15, 2020, to June 30, 2020, and the period during which borrowers will be subject to the restrictions on allowable uses of the loans may extend beyond that period, for purposes of the determination of allowable uses of loans and the amount of loan forgiveness, this statutory exclusion will apply with respect to such taxes imposed or withheld at any time, not only during such period.

⁴ Questions 2 – 18 published April 6, 2020. Question 12 revised June 25, 2020. The original FAQ 12 was as follows:

Question: I need to request a loan to support my small business operations in light of current economic uncertainty. However, I pleaded guilty to a felony crime a very long time ago. Am I still eligible for the PPP?

Answer: Yes. Businesses are only ineligible if an owner of 20 percent or more of the equity of the applicant is presently incarcerated, on probation, on parole; subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or, within the last five years, for any felony, has been convicted; pleaded guilty; pleaded nolo contendere; been placed on pretrial diversion; or been placed on any form of parole or probation (including probation before judgment).

2020 Workbook

As of August 11, 2020

20. **Question:** The amount of forgiveness of a PPP loan depends on the borrower's payroll costs over an eight-week or 24-week period; when does that eight-week or 24-week period begin?

Answer: The eight-week or 24-week period starts on the date your lender makes a disbursement of the PPP loan to the borrower. The lender must disburse the loan no later than 10 calendar days from the date of loan approval.

The Paycheck Protection Program Flexibility Act of 2020, which became law on June 5, 2020, extended the covered period for loan forgiveness from eight weeks after the date of loan disbursement to 24 weeks after the date of loan disbursement, providing substantially greater flexibility for borrowers to qualify for loan forgiveness. The 24-week period applies to all borrowers, but borrowers that received an SBA loan number before June 5, 2020, have the option to use an eight-week period.⁵

21. **Question:** Do lenders need a separate SBA Authorization document to issue PPP loans?

Answer: No. A lender does not need a separate SBA Authorization for SBA to guarantee a PPP loan. However, lenders must have executed SBA Form 2484 (the Lender Application Form for the Paycheck Protection Program)⁶ to issue PPP loans and receive a loan number for each originated PPP loan. Lenders may include in their promissory notes for PPP loans any terms and conditions, including relating to amortization and disclosure, that are not inconsistent with Sections 1102 and 1106 of the CARES Act, the PPP Interim Final Rules and guidance, and SBA Form 2484.

22. **Question:** I am a non-bank lender that meets all applicable criteria of the PPP Interim Final Rule. Will I be automatically enrolled as a PPP lender? What criteria will SBA and the Treasury Department use to assess whether to approve my application to participate as a PPP lender?

Answer: We encourage lenders that are not currently 7(a) lenders to apply in order to increase the scope of PPP lending options and the speed with which PPP loans can be disbursed to help small businesses across America. We recognize that financial technology solutions can promote efficiency and financial inclusion in implementing the PPP. Applicants should submit SBA Form 3507 and the relevant attachments to NFRLApplicationForPPP@sba.gov. Submission of the SBA Form 3507 does not result in automatic enrollment in the PPP. SBA and the Treasury Department will evaluate each application from a non-bank or non-insured depository institution lender and

⁵ Questions 19 – 20 published April 8, 2020. Question 20 revised June 25, 2020. The original FAQ 20 was as follows:

Question: The amount of forgiveness of a PPP loan depends on the borrower's payroll costs over an eight-week period; when does that eight-week period begin?

Answer: The eight-week period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the first disbursement of the loan no later than ten calendar days from the date of loan approval.

⁶ This requirement is satisfied by a lender when the lender completes the process of submitting a loan through the E-Tran system; no transmission or retention of a physical copy of Form 2484 is required.

2020 Workbook

As of August 11, 2020

determine whether the applicant has the necessary qualifications to process, close, disburse, and service PPP loans made with SBA's guarantee. SBA may request additional information from the applicant before making a determination.

23. **Question:** How do the \$10 million cap and affiliation rules work for franchises?

Answer: If a franchise brand is listed on the SBA Franchise Directory, each of its franchisees that meets the applicable size standard can apply for a PPP loan. (The franchisor does not apply on behalf of its franchisees.) The \$10 million cap on PPP loans is a limit per franchisee entity, and each franchisee is limited to one PPP loan.

Franchise brands that have been denied listing on the Directory because of affiliation between franchisor and franchisee may request listing to receive PPP loans. SBA will not apply affiliation rules to a franchise brand requesting listing on the Directory to participate in the PPP, but SBA will confirm that the brand is otherwise eligible for listing on the Directory.

24. **Question:** How do the \$10 million cap and affiliation rules work for hotels and restaurants (and any business assigned a North American Industry Classification System (NAICS) code beginning with 72)?

Answer: Under the CARES Act, any single business entity that is assigned a NAICS code beginning with 72 (including hotels and restaurants) and that employs not more than 500 employees per physical location is eligible to receive a PPP loan.

In addition, SBA's affiliation rules (13 CFR 121.103 and 13 CFR 121.301) do not apply to any business entity that is assigned a NAICS code beginning with 72 and that employs not more than a total of 500 employees. As a result, if each hotel or restaurant location owned by a parent business is a separate legal business entity, each hotel or restaurant location that employs not more than 500 employees is permitted to apply for a separate PPP loan provided it uses its unique EIN.

The \$10 million maximum loan amount limitation applies to each eligible business entity, because individual business entities cannot apply for more than one loan. The following examples illustrate how these principles apply.

Example 1. Company X directly owns multiple restaurants and has no affiliates.

- Company X may apply for a PPP loan if it employs 500 or fewer employees per location (including at its headquarters), even if the total number of employees employed across all locations is over 500.

Example 2. Company X wholly owns Company Y and Company Z (as a result, Companies X, Y, and Z are all affiliates of one another). Company Y and Company Z each own a single restaurant with 500 or fewer employees.

- Company Y and Company Z can each apply for a separate PPP loan, because each has 500 or fewer employees. The affiliation rules do not apply, because

2020 Workbook

As of August 11, 2020

Company Y and Company Z each has 500 or fewer employees and is in the food services business (with a NAICS code beginning with 72).

Example 3. Company X wholly owns Company Y and Company Z (as a result, Companies X, Y, and Z are all affiliates of one another). Company Y owns a restaurant with 400 employees. Company Z is a construction company with 400 employees.

- Company Y is eligible for a PPP loan because it has 500 or fewer employees. The affiliation rules do not apply to Company Y, because it has 500 or fewer employees and is in the food services business (with a NAICS code beginning with 72).
- The waiver of the affiliation rules does not apply to Company Z, because Company Z is in the construction industry. Under SBA's affiliation rules, 13 CFR 121.301(f)(1) and (3), Company Y and Company Z are affiliates of one another because they are under the common control of Company X, which wholly owns both companies. This means that the size of Company Z is determined by adding its employees to those of Companies X and Y. Therefore, Company Z is deemed to have more than 500 employees, together with its affiliates. However, Company Z may be eligible to receive a PPP loan as a small business concern if it, together with Companies X and Y, meets SBA's other applicable size standards," as explained in FAQ #2.

25. **Question:** Does the information lenders are required to collect from PPP applicants regarding every owner who has a 20% or greater ownership stake in the applicant business (i.e., owner name, title, ownership %, TIN, and address) satisfy a lender's obligation to collect beneficial ownership information (which has a 25% ownership threshold) under the Bank Secrecy Act?

Answer:

For lenders with existing customers: With respect to collecting beneficial ownership information for owners holding a 20% or greater ownership interest, if the PPP loan is being made to an existing customer and the lender previously verified the necessary information, the lender does not need to re-verify the information. Furthermore, if federally insured depository institutions and federally insured credit unions eligible to participate in the PPP program have not yet collected such beneficial ownership information on existing customers, such institutions do not need to collect and verify beneficial ownership information for those customers applying for new PPP loans, unless otherwise indicated by the lender's risk-based approach to Bank Secrecy Act (BSA) compliance.

For lenders with new customers: For new customers, the lender's collection of the following information from all natural persons with a 20% or greater ownership stake in the applicant business will be deemed to satisfy applicable BSA requirements and FinCEN regulations governing the collection of beneficial ownership information: owner name, title, ownership %, TIN, address, and date of birth. If any ownership interest of 20% or greater in the applicant business belongs to a business or other legal entity, lenders will need to collect appropriate beneficial ownership information for that entity.

2020 Workbook

As of August 11, 2020

If you have questions about requirements related to beneficial ownership, go to <https://www.fincen.gov/resources/statutes-and-regulations/cdd-final-rule>. Decisions regarding further verification of beneficial ownership information collected from new customers should be made pursuant to the lender's risk-based approach to BSA compliance.⁷

26. **Question:** SBA regulations require approval by SBA's Standards of Conduct Committee (SCC) for SBA Assistance, other than disaster assistance, to an entity, if its sole proprietor, partner, officer, director, or stockholder with a 10 percent or more interest is: a current SBA employee; a Member of Congress; an appointed official or employee of the legislative or judicial branch; a member or employee of an SBA Advisory Council or SCORE volunteer; or a household member of any of the preceding individuals. Do these entities need the approval of the SCC in order to be eligible for a PPP loan?

Answer: The SCC has authorized a blanket approval for PPP loans to such entities so that further action by the SCC is not necessary in the PPP program.

27. **Question:** SBA regulations require a written statement of no objection by the pertinent Department or military service before it provides any SBA Assistance, other than disaster loans, to an entity, if its sole proprietor, partner, officer, director, or stockholder with a 10 percent or more interest, or if a household member of any of the preceding individuals, is an employee of another Government Department or Agency having a grade of at least GS-13 or its equivalent. Does this requirement apply to PPP loans?

Answer: No. The SCC has determined that a written statement of no objection is not required from another Government Department or Agency for PPP loans.

28. **Question:** Is a lender permitted to submit a PPP loan application to SBA through E-Tran before the lender has fulfilled its responsibility to review the required borrower documentation and calculation of payroll costs?

Answer: No. Before a lender submits a PPP loan through E-Tran, the lender must have collected the information and certifications contained in the Borrower Application Form and the lender must have fulfilled its obligations set forth in paragraphs 3.b.(i)-(iii) of the PPP Interim Final Rule. Please refer to the Interim Final Rule and FAQ #1 for more information on the lender's responsibility regarding confirmation of payroll costs.

Lenders who did not understand that these steps are required before submission to E-Tran need not withdraw applications submitted to E-Tran before April 14, 2020, but must fulfill lender responsibilities with respect to those applications as soon as practicable and no later than loan closing.⁸

⁷ Questions 21 – 25 published April 13, 2020.

⁸ Questions 26 – 28 published April 14, 2020.

2020 Workbook

As of August 11, 2020

29. **Question:** Can lenders use scanned copies of documents or E-signatures or E-consents permitted by the E-sign Act?

Answer: Yes. All PPP lenders may accept scanned copies of signed loan applications and documents containing the information and certifications required by SBA Form 2483 and the promissory note used for the PPP loan. Additionally, lenders may also accept any form of E-consent or E-signature that complies with the requirements of the Electronic Signatures in Global and National Commerce Act (P.L. 106-229).

If electronic signatures are not feasible, when obtaining a wet ink signature without in-person contact, lenders should take appropriate steps to ensure the proper party has executed the document.

This guidance does not supersede signature requirements imposed by other applicable law, including by the lender's primary federal regulator.⁹

30. **Question:** Can a lender sell a PPP loan into the secondary market?

Answer: Yes. A PPP loan may be sold into the secondary market at any time after the loan is fully disbursed. A secondary market sale of a PPP loan does not require SBA approval. A PPP loan sold into the secondary market is 100% SBA guaranteed. A PPP loan may be sold on the secondary market at a premium or a discount to par value.¹⁰

31. **Question:** Do businesses owned by large companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

Answer: In addition to reviewing applicable affiliation rules to determine eligibility, all borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application. Although the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary. Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that "[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business. For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification.

⁹ Question 29 published April 15, 2020.

¹⁰ Question 30 published April 17, 2020.

2020 Workbook

As of August 11, 2020

Lenders may rely on a borrower's certification regarding the necessity of the loan request. Any borrower that applied for a PPP loan prior to the issuance of this guidance and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith.¹¹

32. **Question:** Does the cost of a housing stipend or allowance provided to an employee as part of compensation count toward payroll costs?

Answer: Yes. Payroll costs includes all cash compensation paid to employees, subject to the \$100,000 annual compensation per employee limitation.

33. **Question:** Is there existing guidance to help PPP applicants and lenders determine whether an individual employee's principal place of residence is in the United States?

Answer: PPP applicants and lenders may consider IRS regulations (26 CFR § 1.121-1(b)(2)) when determining whether an individual employee's principal place of residence is in the United States.

34. **Question:** Are agricultural producers, farmers, and ranchers eligible for PPP loans?

Answer: Yes. Agricultural producers, farmers, and ranchers are eligible for PPP loans if: (i) the business has 500 or fewer employees, or (ii) the business fits within the revenue-based sized standard, which is average annual receipts of \$1 million.

Additionally, agricultural producers, farmers, and ranchers can qualify for PPP loans as a small business concern if their business meets SBA's "alternative size standard." The "alternative size standard" is currently: (1) maximum net worth of the business is not more than \$15 million, and (2) the average net income after Federal income taxes (excluding any carry-over losses) of the business for the two full fiscal years before the date of the application is not more than \$5 million.

For all of these criteria, the applicant must include its affiliates in its calculations. [Link](#) to Applicable Affiliation Rules for the PPP.

35. **Question:** Are agricultural and other forms of cooperatives eligible to receive PPP loans?

Answer: As long as other PPP eligibility requirements are met, small agricultural cooperatives and other cooperatives may receive PPP loans.¹²

36. **Question:** To determine borrower eligibility under the 500-employee or other applicable threshold established by the CARES Act, must a borrower count all employees or only full-time equivalent employees?

¹¹ Question 31 published April 23, 2020.

¹² Questions 32 – 35 published April 24, 2020.

2020 Workbook

As of August 11, 2020

Answer: For purposes of loan eligibility, the CARES Act defines the term employee to include “individuals employed on a full-time, part-time, or other basis.” A borrower must therefore calculate the total number of employees, including part-time employees, when determining their employee headcount for purposes of the eligibility threshold. For example, if a borrower has 200 full-time employees and 50 part-time employees each working 10 hours per week, the borrower has a total of 250 employees.

By contrast, for purposes of loan forgiveness, the CARES Act uses the standard of “full-time equivalent employees” to determine the extent to which the loan forgiveness amount will be reduced in the event of workforce reductions.¹³

37. **Question:** Do businesses owned by private companies with adequate sources of liquidity to support the business’s ongoing operations qualify for a PPP loan?

Answer: See response to FAQ #31.¹⁴

38. **Question:** Section 1102 of the CARES Act provides that PPP loans are available only to applicants that were “in operation on February 15, 2020.” Is a business that was in operation on February 15, 2020 but had a change in ownership after February 15, 2020 eligible for a PPP loan?

Answer: Yes. As long as the business was in operation on February 15, 2020, if it meets the other eligibility criteria, the business is eligible to apply for a PPP loan regardless of the change in ownership. In addition, where there is a change in ownership effectuated through a purchase of substantially all assets of a business that was in operation on February 15, the business acquiring the assets will be eligible to apply for a PPP loan even if the change in ownership results in the assignment of a new tax ID number and even if the acquiring business was not in operation until after February 15, 2020. If the acquiring business has maintained the operations of the pre-sale business, the acquiring business may rely on the historic payroll costs and headcount of the pre-sale business for the purposes of its PPP application, except where the pre-sale business had applied for and received a PPP loan. The Administrator, in consultation with the Secretary, has determined that the requirement that a business “was in operation on February 15, 2020” should be applied based on the economic realities of the business’s operations.

39. **Question:** Will SBA review individual PPP loan files?

Answer: Yes. In FAQ #31, SBA reminded all borrowers of an important certification required to obtain a PPP loan. To further ensure PPP loans are limited to eligible borrowers in need, the SBA has decided, in consultation with the Department of the Treasury, that it will review all loans in excess of \$2 million, in addition to other loans as appropriate, following the lender’s submission of the borrower’s loan forgiveness application. Additional guidance implementing this procedure will be forthcoming.

¹³ Questions 36 published April 26, 2020.

¹⁴ Question 37 published April 28, 2020.

2020 Workbook

As of August 11, 2020

The outcome of SBA's review of loan files will not affect SBA's guarantee of any loan for which the lender complied with the lender obligations set forth in paragraphs III.3.b(i)-(iii) of the Paycheck Protection Program Rule (April 2, 2020) and further explained in FAQ #1.¹⁵

40. **Question:** Will a borrower's PPP loan forgiveness amount (pursuant to section 1106 of the CARES Act and SBA's implementing rules and guidance) be reduced if the borrower laid off an employee, offered to rehire the same employee, but the employee declined the offer?

Answer: No. As an exercise of the Administrator's and the Secretary's authority under Section 1106(d)(6) of the CARES Act to prescribe regulations granting de minimis exemptions from the Act's limits on loan forgiveness, SBA and Treasury intend to issue an interim final rule excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the CARES Act's loan forgiveness reduction calculation. The interim final rule will specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee's rejection of that offer must be documented by the borrower. Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.

41. **Question:** Can a seasonal employer that elects to use a 12-week period between May 1, 2019 and September 15, 2019 to calculate its maximum PPP loan amount under the interim final rule issued by Treasury on April 27, 2020, make all the required certifications on the Borrower Application Form?

Answer: Yes. The Borrower Application Form requires applicants to certify that "The Applicant is eligible to receive a loan under the rules in effect at the time this application is submitted that have been issued by the Small Business Administration (SBA) implementing the Paycheck Protection Program." On April 27, 2020, Treasury issued an interim final rule allowing seasonal borrowers to use an alternative base period for purposes of calculating the loan amount for which they are eligible under the PPP. An applicant that is otherwise in compliance with applicable SBA requirements, and that complies with Treasury's interim final rule on seasonal workers, will be deemed eligible for a PPP loan under SBA rules. Instead of following the instructions on page 3 of the Borrower Application Form for the time period for calculating average monthly payroll for seasonal businesses, an applicant may elect to use the time period in Treasury's interim final rule on seasonal workers.

42. **Question:** Do nonprofit hospitals exempt from taxation under section 115 of the Internal Revenue Code qualify as "nonprofit organizations" under section 1102 of the CARES Act?

Answer: Section 1102 of the CARES Act defines the term "nonprofit organization" as "an organization that is described in section 501(c)(3) of the Internal Revenue Code of

¹⁵ Questions 38 – 39 published April 29, 2020.

2020 Workbook

As of August 11, 2020

1986 and that is exempt from taxation under section 501(a) of such Code.” The Administrator, in consultation with the Secretary of the Treasury, understands that nonprofit hospitals exempt from taxation under section 115 of the Internal Revenue Code are unique in that many such hospitals may meet the description set forth in section 501(c)(3) of the Internal Revenue Code to qualify for tax exemption under section 501(a), but have not sought to be recognized by the IRS as such because they are otherwise fully tax-exempt under a different provision of the Internal Revenue Code.

Accordingly, the Administrator will treat a nonprofit hospital exempt from taxation under section 115 of the Internal Revenue Code as meeting the definition of “nonprofit organization” under section 1102 of the CARES Act if the hospital reasonably determines, in a written record maintained by the hospital, that it is an organization described in section 501(c)(3) of the Internal Revenue Code and is therefore within a category of organization that is exempt from taxation under section 501(a).¹⁶ The hospital’s certification of eligibility on the Borrower Application Form cannot be made without this determination. This approach helps accomplish the statutory purpose of ensuring that a broad range of borrowers, including entities that are helping to lead the medical response to the ongoing pandemic, can benefit from the loans provided under the PPP.

This guidance is solely for purposes of qualification as a “nonprofit organization” under section 1102 of the CARES Act and related purposes of the CARES Act, and does not have any consequences for federal tax law purposes. Nonprofit hospitals should also review all other applicable eligibility criteria, including the *Interim Final Rules on Promissory Notes, Authorizations, Affiliation, and Eligibility* (April 28, 2020) regarding an important limitation on ownership by state or local governments. 85 FR 23450, 23451.¹⁷

43. **Question:** FAQ #31 reminded borrowers to review carefully the required certification on the Borrower Application Form that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” SBA guidance and regulations provide that any borrower who applied for a PPP loan prior to April 24, 2020 and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith. Is it possible for a borrower to obtain an extension of the May 7, 2020 repayment date?

Answer: SBA is extending the repayment date for this safe harbor to May 14, 2020. Borrowers do not need to apply for this extension. This extension will be promptly implemented through a revision to the SBA’s interim final rule providing the safe harbor.

¹⁶ This determination need not account for the ancillary conditions set forth in section 501(r) of the Internal Revenue Code and elsewhere associated with securing the tax exemption under that section. Section 501(r) states that a hospital organization shall not be treated as described in section 501(c)(3) unless it meets certain community health and other requirements. However, section 1102 of the CARES Act defines the term “nonprofit organization” solely by reference to section 501(c)(3), and section 501(r) does not amend section 501(c)(3). Therefore, for purposes of the PPP, the requirements of section 501(r) do not apply to the determination of whether an organization is “described in section 501(c)(3).”

¹⁷ Questions 40 – 42 published May 3, 2020.

2020 Workbook

As of August 11, 2020

SBA intends to provide additional guidance on how it will review the certification prior to May 14, 2020.

44. **Question:** How do SBA’s affiliation rules at 13 C.F.R. 121.301(f) apply with regard to counting the employees of foreign and U.S. affiliates?

Answer: For purposes of the PPP’s 500 or fewer employee size standard, an applicant must count all of its employees and the employees of its U.S and foreign affiliates, absent a waiver of or an exception to the affiliation rules. 13 C.F.R. 121.301(f)(6). Business concerns seeking to qualify as a “small business concern” under section 3 of the Small Business Act (15 U.S.C. 632) on the basis of the employee-based size standard must do the same.¹⁸

45. **Question:** Is an employer that repays its PPP loan by the safe harbor deadline (May 18, 2020) eligible for the Employee Retention Credit?

Answer: Yes. An employer that applied for a PPP loan, received payment, and repays the loan by the safe harbor deadline (May 18, 2020) will be treated as though the employer had not received a covered loan under the PPP for purposes of the Employee Retention Credit. Therefore, the employer will be eligible for the credit if the employer is otherwise an eligible employer for purposes of the credit.¹⁹

46. **Question:** How will SBA review borrowers’ required good-faith certification concerning the necessity of their loan request?

Answer: When submitting a PPP application, all borrowers must certify in good faith that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” SBA, in consultation with the Department of the Treasury, has determined that the following safe harbor will apply to SBA’s review of PPP loans with respect to this issue: Any borrower that, together with its affiliates,²⁰ received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.

SBA has determined that this safe harbor is appropriate because borrowers with loans below this threshold are generally less likely to have had access to adequate sources of liquidity in the current economic environment than borrowers that obtained larger loans. This safe harbor will also promote economic certainty as PPP borrowers with more limited resources endeavor to retain and rehire employees. In addition, given the large volume of PPP loans, this approach will enable SBA to conserve its finite audit

¹⁸ Questions 43 – 44 published May 5, 2020.

¹⁹ Question 45 published May 6, 2020; revised May 27, 2020 to change the date from “(May 14, 2020)” to “(May 18, 2020).”

²⁰ For purposes of this safe harbor, a borrower must include its affiliates to the extent required under the interim final rule on affiliates, 85 FR 20817 (April 15, 2020).

2020 Workbook

As of August 11, 2020

resources and focus its reviews on larger loans, where the compliance effort may yield higher returns.

Importantly, borrowers with loans greater than \$2 million that do not satisfy this safe harbor may still have an adequate basis for making the required good-faith certification, based on their individual circumstances in light of the language of the certification and SBA guidance. SBA has previously stated that all PPP loans in excess of \$2 million, and other PPP loans as appropriate, will be subject to review by SBA for compliance with program requirements set forth in the PPP Interim Final Rules and in the Borrower Application Form. If SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request, SBA will seek repayment of the outstanding PPP loan balance and will inform the lender that the borrower is not eligible for loan forgiveness. If the borrower repays the loan after receiving notification from SBA, SBA will not pursue administrative enforcement or referrals to other agencies based on its determination with respect to the certification concerning necessity of the loan request. SBA's determination concerning the certification regarding the necessity of the loan request will not affect SBA's loan guarantee.

47. **Question:** An SBA interim final rule posted on May 8, 2020 provided that any borrower who applied for a PPP loan and repays the loan in full by May 14, 2020 will be deemed by SBA to have made the required certification concerning the necessity of the loan request in good faith. Is it possible for a borrower to obtain an extension of the May 14, 2020 repayment date?

Answer: Yes, SBA is extending the repayment date for this safe harbor to May 18, 2020, to give borrowers an opportunity to review and consider FAQ #46. Borrowers do not need to apply for this extension. This extension will be promptly implemented through a revision to the SBA's interim final rule providing the safe harbor.²¹

48. **Question:** What is the deadline for lenders to complete the initial SBA Form 1502 reporting process?

Answer: SBA is extending the deadline for lenders to submit the initial SBA Form 1502. Under SBA's interim final rule on disbursements, posted April 28, 2020, lenders must disburse PPP loans within 10 calendar days of loan approval; a loan is considered approved when the loan is assigned a loan number by SBA. That interim final rule also provides that loans for which funds have not been disbursed because a borrower has not submitted required loan documentation within 20 calendar days of loan approval shall be cancelled by the lender.²² Previously, the deadline for lenders' submission of the initial SBA Form 1502 reporting information was May 22, 2020.²³ SBA is extending the deadline for lenders to electronically upload the initial SBA Form 1502 reporting information to the later of: (1) May 29, 2020, or (2) 10 calendar days after disbursement

²¹ Questions 46 – 47 published May 13, 2020.

²² 85 FR 26321, 26322-23.

²³ 85 FR 29845, 29846.

2020 Workbook

As of August 11, 2020

or cancellation of the PPP loan. This extension of the timeline for the initial SBA Form 1502 reporting information will be promptly implemented through revisions to SBA's interim final rules providing an extension to the certification safe harbor and the deadline for SBA Form 1502 reporting.²⁴

49. **Question:** What is the maturity date of a PPP loan?

Answer: If a PPP loan received an SBA loan number on or after June 5, 2020, the loan has a five-year maturity. If a PPP loan received an SBA loan number before June 5, 2020, the loan has a two-year maturity, unless the borrower and lender mutually agree to extend the term of the loan to five years. The promissory note for the PPP loan will state the term of the loan.²⁵

50. **Question:** What effect does the payment or nonpayment of fees of an agent or other third party have on SBA's guarantee of a PPP loan or SBA's payment of fees to lenders?

Answer: The payment or nonpayment of fees of an agent or other third party is not material to SBA's guarantee of a PPP loan or to SBA's payment of fees to lenders. Additional information about such fees can be found in paragraph III.4.c of the initial Paycheck Protection Program interim final rule ([link](#)).

51. **Question:** Do payments required for the provision of group health care benefits, including insurance premiums, include vision and dental benefits?

Answer: Yes.²⁶

²⁴ Question 48 published May 19, 2020.

²⁵ Question 49 published June 25, 2020.

²⁶ Questions 50 – 51 published August 11, 2020.