

# LOAN FORGIVENESS PROCESS

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*When is a good time to submit your  
application for forgiveness?  
Should you wait?*

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# Payment Protection Program (PPP)



## Eligibility

- 500 employees or less (including affiliates)
- Meets applicable employee size standards based on NAICS (including affiliates)
- 500 employees or less by location in accommodation and food service industry (NAICS 72x) or for any business acting as a franchise that is assigned a franchise identifier code by SBA
- Sole proprietors, independent contractors and other self-employed individuals, including “gig economy” workers
- Charitable tax-exempt organizations (including religious organizations), described in section 501(c)(3) of the Internal Revenue Code, and veterans organizations, described in section 501(c)(19), are eligible to participate in the program. However, other tax-exempt organizations (e.g., those described in sections 501(c)(4), (5), and (6)) are not eligible to participate.



## Amount

2.5 times a borrower’s monthly payroll costs for U.S. employees (employees compensated more than \$100,000 per year must be prorated) or \$10 million, whichever is smaller



## Rate and Maturity

- 1% interest rate
- Payments of both principal and interest will be deferred for six months following the date of loan disbursement; however, interest will accrue during that period
- Loans are forgivable provided certain criteria are met
- Loans issued prior to June 5th have a maturity of 2 years; loans issued after June 5th have a maturity of 5 years

# Loan Forgiveness



## Under Certain Conditions:

Funds must be used in an 8 or 24 week period following loan origination for the following items. With respect to these items, no more than 40% of the loan forgiveness may be attributed to non-payroll costs (you can apply early as well)

- Payroll costs (capped at \$100,000 per employee)
- Any payment of interest on any covered mortgage obligation; any indebtedness or debt instrument that is a liability of the borrower, is a mortgage on real or personal property and was incurred before February 15, 2020
- Any payment of a rent obligation made under a leasing agreement in force before 2/15/2020
- Any utility payment related to the distribution of electricity, natural gas, water, transportation, telephone or internet access for which service began before February 15, 2020



## Existing employees are retained at or near current salary levels

- Employee cuts or wage reductions will reduce forgiven amounts
- Employers are allowed to rehire employees previously let go before the application without penalty



Proceeds from any advance up to \$10,000 on an EIDL loan will be deducted from the loan forgiveness amount



AICPA has launched a tool to aid in applying for loan forgiveness

# Loan Forgiveness

## Information that must be provided to the lender:



Documentation verifying the number of full time equivalent employees on payroll and pay rates including payroll tax filings reported to the IRS and State income, payroll, and unemployment insurance filings



Documentation, including cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments



You must certify that documents provided are true and that loan proceeds were used to maintain employees on the payroll and make eligible rent, mortgage interest and utility payments

- Lender will determine if forgiveness is appropriate within 60 days

# FAQs on PPP Loan Forgiveness

<http://www.sba.gov/document/support-frequently-asked-questions-ppp-loan-forgiveness>

- SBA began accepting loan forgiveness applications on August 10th
- PPP loans will not be subject to Single Audit requirements, but EIDL loans *will be* subject to Single Audit requirements.
- Under current IRS guidance, PPP expenses are not deductible

# Loan Forgiveness

Lenders shall grant forgiveness at up to 100% of the loan amount or a lesser % based on one of the following ratio (borrower's choice):

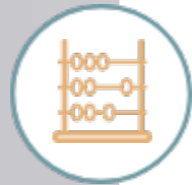
Average # of FTE employees per month for the 8 or 24 week period following loan closing

Average # of FTE employees per month for the period of 2/15/19 through 6/30/19

**OR**

Average # of FTE employees per month for the 8 or 24 week period following loan closing

Average # of FTE employees per month for the period of 1/1/20 through 2/29/20



Other calculations apply for seasonal businesses.



Businesses who have laid off workers or reduced worker salaries between 2/15/20 and 4/26/20, but plan to rehire and restore salaries to original levels with PPP loan proceeds can include those amounts in a loan request. Those amounts can ultimately be forgiven as long as the business re-hires or reinstates prior pay amounts no later than 12/31/20.



Loan forgiveness amounts shall be reduced by the amounts by which a borrower reduces the wages of an employee earning < \$100,000 per year by more than 25% during the 8 or 24 week period from the date of loan disbursement as compared to the employee's wage rate for the quarter prior to the date of loan disbursement.

# Need Certification

- "On April 23, 2020, retroactive guidance from SBA, issued in the form of a Frequently Asked Question (FAQ), stated that PPP applicants must consider their access to other sources of liquidity before certifying that the "current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant."
- "The guidance set a safe harbor date of May 7, 2020, later extended to May 14, 2020, and then extended again to May 18, 2020, for a borrower to repay its loan if it determined that its certification of "necessity" was no longer valid in light of the guidance."
- "SBA's new guidance, issued on the eve of the safe harbor deadline, provides that: (1) any borrower whose affiliate group received less than \$2 million "will be deemed to have made the required certification . . . in good faith ;"
- "and (2) if SBA determines later that a borrower whose affiliate group received more than \$2 million lacked a sufficient basis for its certification of necessity, SBA will require the repayment of the loan and will not pursue other enforcement actions against the borrower ."



# Are you Eligible to Use the EZ PPP Loan Forgiveness Application?

1

You are self-employed and do not have any employees.

2

You did not reduce your employees' hours or did not reduce their salaries or wages by more than 25%

3

You experienced reductions in business as a result of health directives related to the Coronavirus (COVID-19) AND did not reduce the salaries or wages of your employees more than 25%.

*Based on available guidance and the way the forgiveness application is designed, it appears spending more than your loan amount during the covered period counteracts the negative effects of a reduction in FTEs or salaries.*

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## Due Date of Application

*Taxpayers will generally have **10 months** from the last day of the covered period (24 weeks from the date of loan disbursement) to **file** their loan forgiveness application.*

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*Can you apply early for forgiveness?  
(8 to 24 weeks)*

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## Owner -Employee Limitations Only Apply to 5% or More Shareholders of S and C Corporations

- "As provided in previous rules, compensation for owners of a S Corporation or C Corporation cannot exceed the lesser of \$20,833, or 20.833% of their 2019 compensation, or the lesser of \$15,385 or 15.385% of 2019 compensation if the borrower elects to use an 8 week Covered Period."
- "In addition, forgiveness for retirement plan contributions for such owners is limited to 20.833% of the 2019 retirement plan contribution amount."
- "The new IFRs make it clear that such expenses that are attributable to individual shareholders owning less than 5% of the borrower entity are not subject to the owner-employee limitations ."
- "It therefore appears that these limitations will also not apply to retirement plan contributions made for owners that own less than 5% of the borrower ."

# Related Party Rent Payments Limited to Mortgage Interest and Payment of Mortgage Interest to a Related Party Disallowed

Rent paid to a related party is only eligible for forgiveness if -

1

the amount of loan forgiveness requested for rent or lease payments to a related party is no more than the amount of mortgage interest owed on the property during the Covered Period that is attributable to the space being rented by the business, and

2

the lease and the mortgage were entered into prior to February 15, 2020.

# Loan Forgiveness Process and Timeline

## Borrower Application Submission

Borrower submits forms and documentation to lender

*If borrower does not submit Forgiveness Application within 10 months of the end of the Covered Period, deferral on PPP loan ends, and borrower must begin making payments.*

## Lender Review & Submission

Lender reviews and submits forgiveness decision to SBA

60 Days

## SBA Review & Remittance

SBA reviews lender decisions & makes a determination on loan forgiveness, subject to any SBA review of the loan or loan application

90 Days

## Lender Reviews - Making a Forgiveness Decision

### Lenders Have Four Decision Options:

- Approved in Full**– Lender approved the full forgiveness amount requested by borrower, and the forgiveness amount requested by lender equals that amount.
- Approved in Part**– Lender did not approve the full forgiveness amount requested by borrower, and the forgiveness amount decision by lender is less than the forgiveness amount requested by borrower.
- Denied**– Lender denied the entire forgiveness amount requested by the borrower.
- Denied without Prejudice**– Lender should use this status when SBA notifies the lender that a loan review is pending at the time the borrower submits a loan forgiveness application.



# Payroll Tax Deferral

"On Aug. 28, the IRS issued Notice 202065, allowing employers to suspend withholding and paying to the IRS eligible employees' Social Security payroll taxes, as part of COVID-19 relief."

"The payroll tax "holiday," or suspension period, runs from Sept. 1 through Dec. 31, 2020, and applies only to employees whose wages are less than \$4,000 for a biweekly pay period, including salaried workers earning less than \$104,000 per year."

"Companies that suspend collection of employees' payroll tax would collect additional amounts from workers' paychecks from Jan. 1 through April 30 next year to repay the tax obligation."

# Presenter Contact

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**Thank you!**  
**Questions?**

