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Your PPP Loan:

Guide to Forgiveness and Deductibility

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**MONETTISTANDARD**  
ACCOUNTANTS AND ADVISORS

# SOURCES

- Paycheck Protection Program statutes
- SBA Paycheck Protection Program Loans FAQ's (under revision)
- SBA Interim Final Rules
- Paycheck Protection Loan Forgiveness Application Forms 3508, 3508EZ, and 3808S including instructions updated January 19, 2021
  
- Current as of February 5, 2021



THIS PRESENTATION COVERS LOAN FORGIVENESS AND DEDUCTIBILITY UNDER THE PAYCHECK PROTECTION PROGRAM DISBURSED IN 2020 AND LOAN APPLICATIONS UNDER PPP SECOND DRAW LOANS DISBURSED AFTER DECEMBER 27, 2020. IT IS INTENDED AS **GENERAL** INFORMATION ONLY. CONSULT A BUSINESS ADVISOR TO CONSIDER RULES OR EXCEPTIONS THAT MAY APPLY TO YOU.

LOAN APPLICATION AND FORGIVENESS DECISIONS UNDER THIS PROGRAM MAY BE DIFFERENT FROM LENDER TO LENDER, AND LENDERS MAY NOT ALL REQUIRE THE SAME SUPPORTING INFORMATION.

GUIDANCE FOR THE PAYCHECK PROTECTION PROGRAM IS ISSUED FREQUENTLY. MONETTISTANDARD HAS MADE ITS BEST EFFORT TO PROVIDE CURRENT INFORMATION, HOWEVER UPDATES MAY EXIST THAT ARE NOT INCLUDED.

# TOPICS

1. Expense deductibility
2. Time periods involved for forgiveness
3. Costs eligible for forgiveness
4. Costs not eligible for forgiveness
5. Forgiveness reductions and safe harbors
6. Forms
7. Recordkeeping
8. BONUS: Second Draw PPP guidelines

# **EXPENSE DEDUCTIBILITY**

*All eligible expenses are deductible!*

# TIME PERIODS

**Covered Period:** The eight to twenty four week period beginning on the loan date

**Alternative Covered Period:** Borrowers with a bi-weekly (or more frequent) pay period may elect to use the covered period beginning the first day of the first pay period after the loan disbursement date

Borrowers may use either the Covered or the Alternative Covered Period for Payroll Costs.

Borrowers must use the Covered Period for Non-Payroll Costs.

# TIME PERIODS

**Reference Period:** The base time frame used to calculate any reduction in loan forgiveness due to a reduction in average Full Time Equivalent Employees (FTE). The borrower may use the period that produces the lowest FTE.

All borrowers may either use the period from February 15, 2019 through June 30, 2019 or the period from January 1, 2020 through February 29, 2020.

Seasonal employers may also use any consecutive twelve week period between May 1, 2019 and September 15, 2019.

# **ELIGIBLE COSTS: GENERAL**

Total costs included in the forgiveness application can be greater than the initial loan amount. This is helpful if the borrower expects a reduction in forgiveness.

For example: A borrower received a PPP loan of \$100,000 and expects a reduction of \$15,000 in forgivable costs. If the borrower has total costs over \$115,000, the loan can still be fully forgiven.



# **ELIGIBLE COSTS: GENERAL**

Expenses included in the forgiveness application cannot be used when computing tax credits such as the Employee Retention Credit. Borrowers should be careful that only expenses that create forgiveness are included.

For example: A borrower received a PPP loan of \$100,000 and has \$125,000 of gross wages in the covered period. The borrower is also eligible for the Employee Retention Credit. The borrower should only include \$100,000 in wages in PPP costs so the remaining \$25,000 can be used toward the ERC.

# ELIGIBLE COSTS: PAYROLL

Gross wages (up to \$46,154 per U.S. employee using a 24 week period)

Employer contributions for employee health insurance

Employer contributions for employee retirement plans

State and local taxes assessed on employee compensation

Amounts **paid** to owners or partners (up to \$20,833 per owner)

Costs incurred but not paid for the last payroll period are eligible if paid by the next regular payroll date

# **ELIGIBLE COSTS: NON-PAYROLL**

## **Mortgage interest payments**

Secured by real or personal property and incurred before February 15, 2020

## **Rent or lease payments**

Agreements for real or personal property in effect before February 15, 2020

## **Utility payments**

Electricity, gas, water, transportation, telephone, or internet access if service began before February 15, 2020

# **ELIGIBLE COSTS: NON-PAYROLL**

## **Operations expenditures**

Delivery, payroll related expenses, human resources, sales functions, or tracking of inventory or expenses

## **Property damage costs**

Property damage due to vandalism or looting during 2020 net of insurance

## **Supplier costs**

Goods essential to operations if contract was in effect prior to the covered period or in effect during the covered period if perishable

# **ELIGIBLE COSTS: NON-PAYROLL**

Worker protection expenditures

Operating or capital expenditures to comply maintenance, social distancing, or other safety requirement due to COVID-19

Non-payroll costs must be paid or incurred within the Covered Period. They may be paid on or before the next billing date, even if the billing date is after the Covered Period. Additional limitations may apply.

# INELIGIBLE COST EXAMPLES

- Payments for prior debts
- Employer portion of federal payroll taxes
- Otherwise eligible costs paid or incurred outside the allowable period, such as prepaid or back rent
- Interest on unsecured loans
- Mortgage interest or rent paid to related parties is allowed but limited

# **REDUCTIONS: SALARY/WAGE**

Forgivable payroll costs will be reduced if the salary or hourly wage of any employee is reduced by more than 25% compared to the most recent full quarter before the covered period.

Employees earning over \$100,000/yr in 2019 are not included in this calculation.

Employers that did not reduce the salary or hourly wage of any employee more than 25% can ignore this test.

# **REDUCTIONS: SALARY/WAGE**

Safe Harbor (determined for each employee):

The borrower is not subject to forgiveness reduction for Salary/Wage if:

- 1) Salary/wage is reduced between February 15, 2020 and April 26, 2020 AND
- 2) On December 31, 2020, salary/wage is restored to the level of the pay period including February 15, 2020



# REDUCTIONS: SALARY/WAGE

Wage Reduction Example								
24 Week Period								
	A	B	C (A x B)	D (C -A)	E	F (D X E)	G (F x 24)	
	Average	Average		Rate	Average	Weekly	Forgiveness	
	Prior Qtr.	Covered		Shortfall	Weekly Hrs.	Shortfall	Reduction	
Employee	Rate	Pd. Rate	75% Test	(\$)	Prior Quarter	(\$)	(\$)	
John Doe	40	40	n/a	n/a	n/a	n/a	0	
Jane Smith	40	40	n/a	n/a	n/a	n/a	0	
Frank Monetti	20	11	15	4	30	120	2,880	
<b>Total</b>							<b>\$2,880</b>	

# **REDUCTIONS: FTE**

Full Time Equivalent (FTE) is the number of hours worked by an employee in one week (up to 40), divided by 40 hours and rounded to one tenth (and not more than 1.0). For example, if an employee works 30 hours in a week, that equals .8 FTE. This calculation must be done for each employee and added together to get the average FTE for the borrower.

For convenience (and if it provides a better result), an employer can assume that every full-time employee is one FTE and every other employee is .5 FTE.

# **REDUCTIONS: FTE**

Total forgivable costs are reduced if the FTE during the covered period is less than the FTE of the reference period.

Employers that did not reduce the number of employees or average paid hours of employees between January 1, 2020 and the end of the covered period can ignore this test.

# **REDUCTIONS: FTE**

The borrower is not subject to forgiveness reduction for FTE if:

- 1) It reduced its FTE between February 15, 2020 and April 26, 2020 AND on December 31, 2020, it restored its FTE to the FTE of the pay period including February 15, 2020 , OR
- 2) From February 15, 2020 through the end of the covered period, it was “unable to operate” at pre-February 15 levels due to COVID-19 health and safety guidance issued between March 1, 2020 and December 31, 2020

# **REDUCTIONS: FTE**

Safe Harbor (for each employee)

The borrower is not subject to forgiveness reduction for FTE for an employee if:

- 1) The borrower made a written offer of employment that was rejected
- 2) Any employees were fired for cause, voluntarily resigned, or voluntarily requested a reduction of hours during the Covered or Alternative Covered Period

This Safe Harbor **ONLY** applies if the employee was replaced

# REDUCTIONS: FTE

FTE Example (Reference FTE is 3.0)				
24 Week Period				
Covered Period				
	A	B (40 hrs x 24 wks)	C (A / B)	
Employee	Hours Worked	Total Hours	FTE	
John Doe	960	960	1.0	
Jane Smith	960	960	1.0	
Frank Monetti	600	960	0.6	
<b>Total</b>			<b>2.6</b>	
FTE Quotient (Reference FTE/Covered FTE)			0.87	
Total forgivable costs are reduced by			13%	

# **REDUCTIONS: 60% PAYROLL COSTS**

60% of loan forgiveness must consist of payroll costs. Specifically, loan forgiveness cannot be more than payroll costs (before reductions) divided by 60%. This does NOT mean that non-payroll costs up to 40% of the loan can be forgiven.

For example: If the loan is \$100,000 and payroll costs are \$45,000 (less than 60%), maximum forgiveness is \$75,000 ( $\$45,000 / .6$ ).

# FORMS

3508S: Loans of \$150,000 or less

No calculations, only general certifications forgiveness information

3508EZ: Loans over \$150,000 with no FTE or salary/wage forgiveness reductions

Some calculations, more detailed certifications and forgiveness information

3508: Loans over \$150,000 with FTE or salary/wage reductions

Detailed calculations, certifications, and forgiveness information

Banks may have different documentation requirements



# **RECORDKEEPING**

All borrowers must maintain these records:

- Payroll records including tax filings (four years)
- Proof of other payroll costs such as retirement contributions (four years)
- Proof of non-payroll costs including existence of certain contracts (three years)
- Loan application, certification of loan eligibility, and documents supporting forgiveness such as FTE or salary calculations (three years)

# SECOND DRAW PPP LOANS

Eligible borrowers:

- Business with employees
- Independent contractor, eligible self-employed individual, or sole proprietor
- Veterans organization
- Housing cooperative
- 501(c)(3) tax-exempt organizations
- 501(c)(6) tax-exempt organizations

# SECOND DRAW PPP LOANS

Ineligible borrowers:

- Political or lobbying activities
- Entities formed in, operate, or have resident shareholders in China
- Entities that received a shuttered venue grant
- Entities owned or controlled by a member of Congress or the Executive department
- Publicly traded companies
- Entities that are permanently closed

# **SECOND DRAW PPP LOANS**

An eligible borrower must have:

- 300 or fewer employees
- Received a First Draw loan and has used the full amount on allowable expenses by the application date or will use the full amount before the Second Draw is issued
- Experienced a reduction in gross receipts of 25% or greater in 2020 relative to 2019

# **SECOND DRAW PPP LOANS**

In general, a borrower can use a specific quarter when computing the gross receipts reduction. For example, the first quarter of 2020 would be compared to the first quarter of 2019. If the borrower was in operation all of 2019, it can use the entire year but must base the amounts on filed tax returns.

The definition of gross receipts and other terms have not been finalized at this time.

All borrowers will be required to submit proof of reduction in gross receipts.

Banks may have differing requirements for loan applications.



# **THE END**

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