

August 20, 2020

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# SBA Paycheck Protection Program (PPP) Forgiveness Application Documentation Requirements

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# Disclaimer

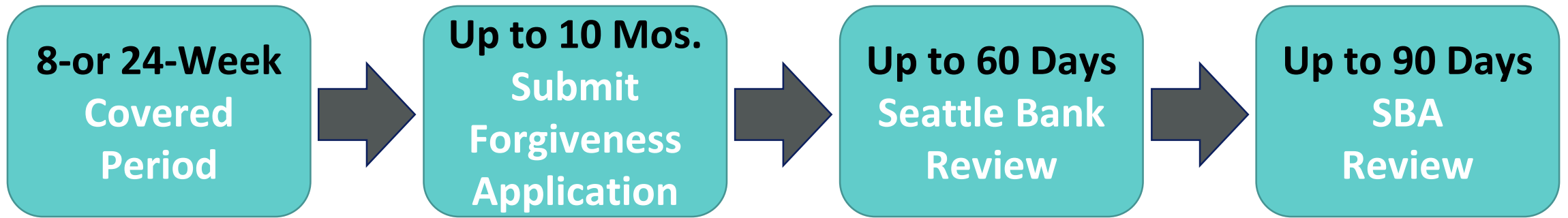
**Paycheck Protection Program (PPP) Loan Forgiveness is an evolving process, subject to change as further guidance is released by the SBA and US Treasury.**

This document is for general informational purposes only, and it should not be relied upon as a substitute for obtaining independent advice or undertaking independent research before starting the process to apply for PPP loan Forgiveness.

The information that follows does not take into account any particular borrower's situation or needs.

If you have questions about a scenario where the SBA or US Treasury has not released guidance, we strongly urge you to seek professional advice before applying for forgiveness.

# PPP Loan Forgiveness Timeline



- You have up to 10 months after the end of your covered period to submit your forgiveness application
- The last two review steps are the SBA's published turnaround times, and we expect Seattle Bank's review to take fewer than 7 business days
- While the SBA technically has up to 90 days to process your application, they have communicated that they expect to render forgiveness decisions much sooner than that

## Documentation: Setting Expectations

- The SBA requires significantly more documentation for PPP loan forgiveness applications than was required for the original loan application
- Organization is critical (for your own peace of mind as well as ours!)
- Imagine you are creating an audit file -- if you claim an amount in your forgiveness request, you should be prepared to document where that amount came from
- If your accounting is complex and your financial documentation is difficult to interpret, please upload a written explanation to help guide us through your forgiveness application
  - ❖ **This will help to reduce follow-up questions and processing times!!!**

# Documents That Must Be Submitted With Your Application

## **Form 3508 (Standard Application)**

- PPP Loan Forgiveness Calculation Form 3508 (this will be automatically generated through Seattle Bank's PPP Loan Forgiveness portal)
- PPP Schedule A
- Payroll Documentation (payroll register AND 941s)
- FTE Documentation
- Non-payroll Documentation

## **Form 3508EZ (Easy Application)**

- PPP Loan Forgiveness Calculation Form 3508EZ (this will be automatically generated through Seattle Bank's PPP Loan Forgiveness portal)
- Payroll Documentation (payroll register AND 941s)
- Non-payroll Documentation

\*\*No Schedule A

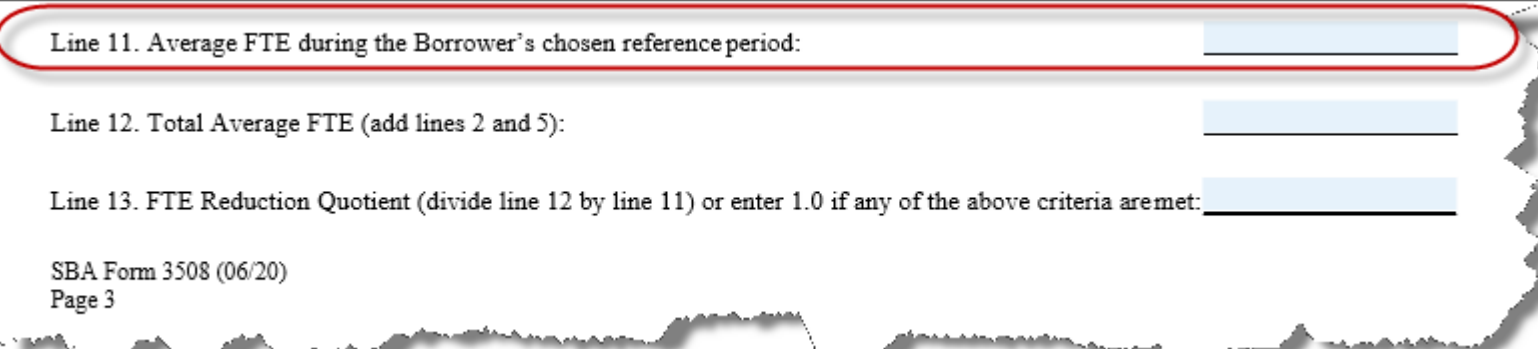
\*\*No FTE Docs unless you checked the 2nd of the 3 options that qualify your eligibility for using the EZ form → Need average FTE from 1/1/20 through end of Covered Period

# FTE Documentation

- Form 3508 (standard application) Only
- Required if you experienced a reduction in FTE and are not eligible for an FTE Reduction Exception
- Borrowers choose one of the three FTE reference periods below
  - Third option is for seasonal employers only
- Documentation showing:
  - Average number of FTE employees on payroll per week employed by the borrower between **February 15, 2019, and June 30, 2019**, or
  - Average number of FTE employees on payroll per week employed by the borrower between **January 1, 2020, and February 29, 2020**, or
  - In the case of a seasonal employer, the average number of FTE employees on payroll per any **consecutive 12-week period between May 1, 2019, and September 15, 2019**

## FTE Documentation Continued (3508 only)

- The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11



The image shows a portion of the SBA Form 3508 (06/20) Page 3. It features three lines for data entry, each with a light blue input field. Line 11 is circled in red. Line 12 is below it, and Line 13 is below that. The text for each line is as follows:

- 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:

At the bottom left of the form, it reads "SBA Form 3508 (06/20) Page 3".

- Documents may include payroll tax filings reported -- or that will be reported -- to the IRS (e.g., Form 941) and state quarterly business and individual employee wage reporting, as well as 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 as long as they encompass the entire covered period

# Expenses & Supporting 100% Forgiveness

- ❖ *You are not documenting “how you spent” your PPP funds, but rather what expenses were paid during your covered period that are eligible for forgiveness.*
- It is completely acceptable to document 100% of your PPP forgiveness loan amount as payroll expenses
- Your PPP loan amount was based on 2.5 times your average monthly payroll expense and did not include non-payroll expenses, so it shouldn't be difficult for most borrowers using a 24-week covered period to apply with 100% payroll documentation
- If you are able to document 100% of your loan amount as payroll expenses, you are not required to include non-payroll expenses in your calculations (even if you have eligible non-payroll expenses)
  - This is the **most efficient way** to get your loan 100% forgiven and avoid the extensive non-payroll documentation requirements that are in place at this time



# Payroll Costs Incurred or Paid

- Must be at least 60% of loan forgiveness amount
- Option of 56 days OR 168 days\* of wages paid and incurred for employees whose primary residence is in the US, **beginning either:**

On the PPP forgiveness loan funding date, or for borrowers with bi-weekly or more frequent payroll, day of first pay period after loan funding

Wages incurred in forgiveness period and paid after forgiveness period ends are included

Payrolls are effective as of date of distribution of paychecks or effective date that ACH deposits are originated

For employees other than owner-employees, no more than \$15,385 per person (8-week option) or \$46,154 (24-week option)

\*Loans funded 6/5/20 or later have a 168-day covered period only

# Payroll Costs Incurred or Paid

- **8 weeks** OR **24 weeks** of wages beginning on your covered period start date for employees whose principal residence is in the US.
  - Severance pay for terminated employees is included
  - Wages earned prior to your PPP forgiveness loan funding date, but paid after funding, are included
  - Wages accrued during covered period, but paid on first payroll date following covered period, may be included (partial payroll amounts will need to be calculated)
    - ❖ Example: A company has 8 working days after their last payroll date but before their covered period has expired. Wages for those 8 days will be paid in the next payroll after the covered period expires. These wages were incurred during the covered period and can be included in the forgiveness calculation. \*\*It will be helpful to show your partial payroll calculations on your payroll documentation (e.g., 8 days of wages broken out from the entire payroll amount).

## Payroll Costs Incurred or Paid

- Reasonable bonus payments can be paid provided that no single employee receives more than **\$15,385 during the 8-week covered period** OR **\$46,154 during the 24-week covered period** for their total compensation
- For owner-employees -- no more than **\$15,385 during the 8-week covered period** OR **\$20,833 during the 24-week covered period**, capped at 2.5-month equivalent of their 2019 compensation (2019 compensation includes health benefits and retirement plan contributions)
- Mandated paid leave wages cannot be included

## Other Payroll Costs Incurred or Paid

### ➤ **Qualified healthcare costs for employees only**

- Employer share of costs paid during the 8- or 24-week covered period
  - Pre-tax amounts to be included in gross payroll
- Includes healthcare premiums and costs of a self-insured plan
- Includes dental, vision, HDHPs, HRAs, FSAs, and other usual health coverages (but not HSAs or QSEHRAs)
- Self-insured health benefits paid from the employer's general assets or a special health-plan bank account may be included
- Prepaid premiums and contributions to health plans may be allowed

## Other Payroll Costs Incurred or Paid

### ➤ **Retirement plan contributions for employees only**

- Employer share of costs paid during the 8- or 24-week covered period
  - Pre-tax amounts to be included in gross payroll
- 2019 contributions can be included if funded in the 8- or 24-week covered period
- 2020 contributions for employer match, discretionary profit-sharing contributions, and maximum allowable defined benefit plan contributions if funded in the 8- or 24-week covered period
  - Contributions may perhaps be prepared and allocated to employee accounts as required later in 2020
  - Need to be sure you comply with plan provisions regarding maximum contribution

# Summary: Qualifying Payroll Expenses

## **Below are examples of expenses that qualify as payroll expenses:**

- Salaries and wages (even if paid through a PEO)
- Tips
- Bonuses, commissions, and incentives
- Hazard pay
- Vacation pay
- Parental and family leave (not FFCRA wages)
- Sick leave
- Group medical benefits paid by employer (not the employee's portion)
- Retirement benefits (e.g., 401K match, Simple IRA) paid by employer

# Summary: **NON**-Qualifying Payroll Expenses

## **Below are examples that DO NOT qualify for payroll expenses:**

- 1099 contract workers
  - Special provision for fishing vessel 1099 wages -- see [13 CFR Part 120](#) for more information.
- Employees that are paid by another company
- Social Security taxes
- Medicare taxes
- Cost of managing payroll (e.g., third-party expenses to payroll firms, bookkeepers, etc.)

# Restrictions for Owner-Employee Forgiveness Amounts

- An owner-employee includes any shareholder of a C corporation or S corporation, any member of an LLC, any partner of a partnership, and all sole proprietors
- Amount forgiven is limited to lesser of **\$15,385 during the 8-week covered period** OR **\$20,833 during the 24-week covered period**, capped at the 2.5-month equivalent of their 2019 compensation (including health benefits and retirement plan contributions)
  - Amounts included in gross wages, self-employed income, or Schedule C or F amounts
  - Group health plan benefits and retirement contributions not included in gross wages are added to total compensation **before** the caps outlined above
  - General partners are capped at 0.9235 x the sum of their 2019 self-employed income, less unreimbursed partnership expenses, section 179 deductions, and oil and gas depletion
- Owner-employees and sole proprietors will be asked to provide a copy of their “filed” 2019 tax forms to verify their 2019 compensation cap



# Payroll Documentation – Form 3508 Standard Application

- Documentation verifying the eligible cash compensation and non-cash benefit payments from the covered period or the alternative covered period consisting of:
  - Wages:
    1. Third-party payroll service provider reports OR bank account statements documenting the amount of cash compensation paid to employees **AND**
    2. Payroll tax forms reported to the IRS for the periods that overlap with the covered period (Form 941)
  - Employee Health Insurance & Retirement Plans:
    - Payment receipts, cancelled checks, OR
    - Account statements documenting the amount of any employer contributions that are included in the forgiveness amount (PPP Schedule A, lines 6-7)
  - Employer-paid State & Local Taxes Assessed on Employee Compensation:
    - State quarterly business and individual employee wage reporting and unemployment insurance tax filings that were reported to the state

# Payroll Documentation – Form 3508EZ Application

- The same as required for the standard 3508 plus the following:
- If you checked ***only the second box on the checklist on page 1*** of the 3508EZ instructions, you will need to submit documentation to prove the average number of FTEs on payroll employed on **January 1, 2020**, and the average number of FTEs on payroll employed at **the end of your covered period**
- Sole Proprietor / Independent Contractor Wage Documentation:
  1. Copy of filed 1040 Schedule C and
  2. Copies of checks or account transfers as evidence of wages paid to yourself

# Eligible Non-Payroll Expenses -- Rent and Mortgage Interest

- Rents under leases and mortgage interest for real or personal property used in the business
- Only covers rents and mortgage interest for obligations that were in place 2/15/2020
- Evidence of leases or promissory notes must be provided
- Past due amounts can be included

# Eligible Non-Payroll Expenses — Utilities in Place As of 2/15/2020

- Payments for a service to include:
  - Electricity
  - Gas (natural gas service)
  - Water
  - Telephone (including cell phones)
  - Internet access
  - Transportation (gas for business vehicles)
  
- Past due amounts can be included
  
- Evidence of utility obligations must be provided
  
- Payments for trash pickup, recycling pickup, outdoor maintenance, VPN service, email service, and other IT support cannot be included

# Non-Payroll Documentation – Applies to both 3508 & 3508EZ

- Documentation verifying existence of the obligations/services prior to February 15, 2020, AND eligible payments from the covered period
  - Business mortgage interest payments: (choose one of the following two options)
    1. Copy of lender amortization schedule AND receipts OR cancelled checks verifying eligible payments from the covered period; OR
    2. 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
  - Business rent or lease payments: (choose one of the following two options)
    1. Copy of current lease agreement AND receipts OR cancelled checks verifying eligible payments from the covered period; OR
    2. Lessor account statements from February 2020 and from the covered period through one month after the end of the covered period verifying eligible payments
  - 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

# Utility Documentation

- Three document types are required for EACH utility category:
  1. Evidence that utility was in place as of 2/15/2020
    - Usually a copy of February 2020 account statement or monthly invoice
  2. Copies of all invoices you wish to be included in your forgiveness amount
  3. Proof that all invoices were paid -- receipts, cancelled checks, or account statements
  
- The same account statement can be used to meet #2 and #3
  - E.g., Evidence of current month's amount due and also prior month's amount paid
  
- **Example:**
  - Loan funded 4/15, client opts for 24-week covered period, wants to include electricity payments from entire covered period, March invoice paid 4/17, covered period ends 9/30
  - Documents to be submitted:
    - February 2020 electricity provider monthly statement
    - March, April, May, June, July, August, September, and October monthly statements

# Document Retention Requirements

- The SBA requires borrowers to retain all (submitted and supporting) records relating to their PPP forgiveness loan for six (6) years after the date the loan is forgiven or repaid in full
- Documents that each borrower must maintain but are not required to submit:
  - The PPP loan forgiveness application instructions provide the list of documents that each borrower is required to maintain but will not be collected by Seattle Bank
  - Please refer to:
    - Page 4 of the 3508EZ Loan Forgiveness Application Instructions OR
    - Page 7 of the 3508 Loan Forgiveness Application Instructions
- ❖ **The SBA may review any PPP loan of any size at any time at its sole discretion!**
  - To ensure the process goes smoothly if your loan is selected for review, please maintain clear accounting records and keep all required documentation organized so that the information can easily be provided upon request

Seattle Bank appreciates your business, and we are here to help in any way that we can!

- Please contact [ppphelp@seattlebank.com](mailto:ppphelp@seattlebank.com) with any questions regarding your PPP forgiveness loan.
- If you are interested in learning more about Seattle Bank, please contact:

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# Built For You

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Seattle Bank is a boutique bank focused on the needs of families, businesses, and community organizations in the Pacific Northwest. Our mission is to be a unique financial resource by providing our clients a personalized experience and peace of mind. We are a unique partner to the independent wealth management community, collaborating closely with our clients' trusted advisors to assist them in providing holistic wealth management solutions.

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