



## **DONOVAN, KLIMCZAK & COMPANY**

EDWARDS ACCOUNTING | WARFIELD AND COMPANY | MIDCAP AND COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

### **PPP Loan Forgiveness Updated Guidance**

The SBA released the PPP Loan Forgiveness Application on May 15<sup>th</sup>. The application and related instructions provided some much needed answers and guidance on loan forgiveness. However, there are still areas where additional guidance is needed. In the press release regarding the application, the SBA indicated they would be issuing additional regulations and guidance on PPP loan forgiveness.

#### **Covered Period/Alternative Payroll Covered Period**

- Covered Period: Eight-week (56) day period covered by your PPP Loan. The first day of the Covered Period must be the same day as the PPP Loan Disbursement Date. For example, if the borrower 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, June 14.
- 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 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 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 Covered Payroll period is Saturday, June 20.
  - This election would apply only to payroll costs – wages, health insurance, retirement, and state unemployment tax.
  - Does not apply to nonpayroll costs - rent, utilities or mortgage interest.

#### **Eligible Payroll Costs**

- Borrowers are eligible for forgiveness for payroll costs paid and payroll costs incurred during the eight-week (56-day) Covered Period or Alternative Payroll Covered Period, if elected.
  - Wages (see below for how wages paid and incurred are determined and wage caps)
    - Gross salary, gross wages, gross tips, gross commission, paid leave (not covered by FFCRA) and allowances for dismissal or separation paid during the covered period.
    - Note this is gross wage before any pre-tax deductions, such as employee share of health insurance or HSA contributions.

- Amount paid by 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.
  - Note that employee pretax contributions are excluded from health insurance, but they are included in gross wages.
  - Only reference is to amounts paid during the Covered Period or Alternative Payroll Covered Period. No reference to what period the health insurance premiums have to cover, only that they are paid during the Covered Period or Alternative Payroll Covered Period.
    - Are prepaid health insurance premiums paid during the Covered Period eligible payroll costs? Appears they may be. Need more guidance.
- Amounts paid by borrower for employer contributions to employee retirement plans, excluding any pre-tax or after-tax contributions by employees.
  - Only reference is to amounts paid during the Covered Period or Alternative Payroll Covered Period. No reference to what period the retirement contributions have to cover, only that they are paid during the Covered Period or Alternative Payroll Covered Period.
    - Are 2019 profit sharing, 401(k) match, or defined benefit plan contributions paid during the Covered Period eligible payroll costs? Appears they may be. Need more guidance.
    - Can a borrower pay all of their 2020 profit sharing, 401(k) match, or defined benefit plan contributions during the Covered Period and have those costs be eligible for forgiveness? Appears they possible can. Need more guidance. Or will there be a proration of any 2020 profit sharing, 401(k) match, or defined benefit plan contributions based on eight weeks. Is there more guidance coming?
- Total amount paid by the Borrower for employer state and local taxes assessed on employee compensation (e.g. state unemployment insurance tax). Does not included any taxes withheld from employee earnings.
  - Note paid by the Borrower is underlined in the application instructions.
  - Assume this means 1<sup>st</sup> quarter 2020 Ohio Unemployment tax paid during the Covered period will be an eligible payroll cost, even though the tax relates to a period prior to the Covered period.
- Payroll costs are considered paid on the day paychecks are distributed or Borrower originates an ACH credit transaction.
  - For example, assume borrower receives their PPP loan funding on April 30. April 30 is also a payroll date – paychecks are disbursed and direct deposit credited to employee accounts on April 30. The April 30 payroll is considered paid during the Covered Period is included in eligible payroll costs.
- Payroll costs are considered incurred on the date that the employee’s payroll 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.

- For example, assume the end of the borrower's Covered Period is June 14. Borrower pays on a bi-weekly basis. Employees are paid for period June 1 thru June 14 on June 19. The payroll paid on June 19 will be eligible for forgiveness even though paid outside the Covered Period, since the employees earned the payroll during the covered period and were paid on the next regular payroll date.
    - May require a proration of the first payroll paid after the Covered Period ends if that payroll includes amounts earned by the employee both during and after the Covered Period.
- Wage limitations
  - Employees wages are capped at \$15,385 for the Covered Period (or Alternative Covered Period).
  - Owner-employee or self-employed individual/general partner capped at lower of 8/52 of 2019 compensation or \$15,385.
    - The cap based on 8/52 of 2019 compensation for owner-employees is new. Prior guidance did not include any reference to owner-employee 2019 compensation cap. The cap based on 2019 previously only applied to self-employed individuals per previously issued guidance.
    - If owner-employee's 2019 wage was less than \$100,000, their eligible wages for the Covered Period (or Alternative Payroll Covered Period) will be based on 8/52 of their 2019 wage. For example, assume their 2019 wage was \$80,000. Their wages eligible for forgiveness will be capped at \$12,308 (8/52 x \$80,000).
    - If owner-employee made less than \$100,000 in 2019 and wages were increased during the Covered Period to maximize loan forgiveness, need to revisit.

### **Eligible Nonpayroll Costs**

- Business Mortgage Interest Payments - Payments of interest on any business mortgage obligation on real or personal property incurred before February 15, 2020.
- Business Rent or Lease Payments – Business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020.
- Business Utility Payments – Business payments for services for the distribution of electricity, gas, electric, water, transportation (still not defined), telephone, or internet access for service which began before February 15, 2020.
- 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. (Note the Alternative Payroll Covered Period does not apply).
  - For example, assume the end of the Borrower's Covered Period is June 14. They are billed by Ohio Edison for electric for the period May 1 thru May 31 on June 15. The due date for the Ohio Edison bill is June 30. As long as the Ohio Edison bill is paid on or before June 30, the cost eligible for forgiveness even through it is paid after the Covered Period, since the cost was incurred during the Covered period.

- Includes eligible nonpayroll costs paid during the Covered Period.
  - Appears items such as back rent or utilities paid during the Cover Period are eligible nonpayroll costs.

### Average FTE/FTE Reduction Calculation

- Average FTE – average full-time equivalency
  - For each employee, compute the average number of hours paid per week during the specified period, divide by 40, and round to the nearest tenth.
    - Note owner-employees and self-employed individuals/partners are not included in the FTE calculations.
  - Maximum for each employee is capped at 1.0.
  - Simplified method may be elected that assigns 1.0 for employees that work 40 hours or more per week and 0.5 for employees who work fewer hours.
    - If simplified method is elected, must use for all periods which require FTE calculation and for all employees.

**Example.** During the Covered period, Employee A works 350 hours. Employee A’s average hours per week is 43.75 (350 hours\8 weeks). Since Employee A’s average hours per week is greater than 40, they count 1.0 FTE.

**Example.** During the Covered period, Employee B works 240 hours. Employee B’s average hours per week is 30 (240 hours\8weeks). Employee B will count 0.8 FTE (30/40 rounded to the nearest tenth). Alternatively, if the simplified method is elected, Employee B will count as 0.5 FTE, since they average less than 40 hours per week.

**Example.** Employer has 5 employees. During the Covered Period, Employee A averaged 45 hours per week, Employee B averaged 40 hours per week, Employee C averaged 28 hours per week, Employees D and E averaged 20 hours per week.

For the Covered Period, employer had 3.7 FTEs:

A: 45/40 capped at 1.0

B: 40/40 = 1.0

C: 28/40 = 0.7

D: 20/40 = 0.5

E: 20/40 = 0.5

If the employer instead chose to use the simplified method, they would have 3.5 FTEs:

A: 45/40 capped at 1.0

B: 40/40 = 1.0

C: 28/40 = 0.5 (note only counts as 0.5 instead of 0.7)

D: 20/40 = 0.5

E: 20/40 = 0.5

- Periods to determine average FTEs (for every employee employed during the applicable period)
  - Eight-week Covered Period (or Alternative Payroll Covered Period, if elected)
  - Lookback periods (Borrower will select period that results in lower FTEs)
    - February 15, 2019 to June 30, 2019
    - January 1, 2020 to February 29, 2019
  - February 15, 2020 to April 26, 2020
  - Pay period inclusive of February 15, 2020
  - June 30, 2020
  
- Average FTE Reduction
  - If average FTEs during the Covered Period (or Alternative Covered Period, if elected) is less than average FTEs for the chosen lookback period (Feb 15, 2019 to June 30, 2019 or Jan 1, 2020 to February 29, 2020), loan forgiveness may be subject to an FTE reduction factor unless FTE Reduction Safe Harbor is met.
  - FTE Reduction Exception
    - Any FTE reductions for the following cases do not reduce the Borrower's loan forgiveness.
      - Any positions for which during the Covered Period or the Alternative Payroll Covered Period the Borrower made a good-faith, written offer to rehire an employee, which was rejected by the employee
      - Any employees who during the Covered Period or the Alternative covered period:
        - Were fired for cause
        - Voluntarily resigned
        - Voluntarily requested and received a reduction in their hours
      - In all of these cases, the exception only applies if the position was not filled by a new employee.
  - FTE Reduction Safe Harbor
    - A safe harbor exempts borrowers from the loan forgiveness reduction based on FTE employee levels if both of the following conditions are met:
      - The borrower reduced its FTE employee levels in the period beginning February 15, 2020 and ending on April 26, 2020, and
      - The Borrower then restored its FTE employee levels by no later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.
    - Compute total average FTEs for period February 15, 2020 to April 26, 2020
    - Compute total FTEs in pay period inclusive of February 15, 2020.

- If total average FTEs for period February 15, 2020 to April 26, 2020 are greater than or equal to total FTEs in pay period inclusive of February 15, 2020, FTE Reduction Safe Harbor is not applicable.
- If total average FTEs for period February 15, 2020 to April 26, 2020 are less than total FTEs in pay period inclusive of February 15, 2020, compute total FTEs as of June 30, 2020.
  - If total FTE's as of June 30, 2020 are greater than or equal to total FTE's at February 15, 2020, FTE Reduction Safe Harbor has been satisfied. If not, FTE Reduction Safe Harbor does not apply.
  - If total FTE's as of June 30, 2020 are less than total FTEs as of February 15, 2020, the FTE Reduction Safe Harbor is not applicable.

**Example** – Reduction in FTEs in Covered Period and for Feb 15 to Apr 26. Reduction in FTE's not restored.

Assume the following FTE's:

- Covered Period – 10 FTEs
- Lookback period (Jan 1, 2020 to Feb 29, 2020) – 15 FTEs
- February 15, 2020 to April 26, 2020 – 9 FTEs
- February 15, 2020 – 15 FTE's
- June 30, 2020 – 10 FTEs

There is a reduction in FTE's for Feb 15 to Apr 26 (9) compared to Feb 15 (15). However, FTEs were not restored to 15 (Feb 15<sup>th</sup> FTEs) by June 30, so FTE Reduction Safe Harbor does not apply.

Borrower may be subject to FTE Reduction of their loan forgiveness. The loan forgiveness would be limited to 67% (10/15) of eligible costs.

**Example** – Reduction in FTEs in Covered Period and for Feb 15 to Apr 26. Reduction restored by June 30, 2020.

Assume the following FTE's:

- Covered Period – 10 FTEs
- Lookback period (Jan 1, 2020 to Feb 29, 2020) – 15 FTEs
- February 15, 2020 to April 26, 2020 – 9 FTEs
- February 15, 2020 – 15 FTE's
- June 30, 2020 – 16 FTEs

There is a reduction in FTE's for Feb 15 to Apr 26 (9) compared to Feb 15 (15). FTE's at June 30 are greater than FTEs at Feb 15. FTE Reduction Safe Harbor Applies. There is no reduction in loan forgiveness related to lower FTEs during covered period.

**Example** – Reduction in FTE's occurs in Covered Period, but not in Feb 15 to Apr 26 period. Reductions in FTEs restored by June 30.

Assume the following FTE's:

- Covered Period – 10 FTEs
- Lookback period (Jan 1, 2020 to Feb 29, 2020) – 15 FTEs
- February 15, 2020 to April 26, 2020 – 15 FTEs
- February 15, 2020 – 15 FTE's

June 30, 2020 – 16 FTEs

There is no reduction in FTE's for Feb 15 to Apr 26 (15) compared to Feb 15 (15), so FTE Reduction Safe Harbor is not applicable. Even though FTE's at June 30 are greater than FTEs at Feb 15, still subject to reduction in loan forgiveness related to reduction in FTEs in Covered Period compared to lookback period. Borrower may be subject to FTE Reduction of their loan forgiveness. The loan forgiveness would be limited to 67% (10/15) of eligible costs.

### Salary/Hourly Wage Reduction

- Actual amount of loan forgiveness may be reduced, depending on whether the salary or hourly wages of employees who earned less than \$100,000 in 2019 were reduced by more than 25% during the Covered Period or the Alternative Covered Period as compared to the period of January 1, 2020 through March 31, 2020.
- Salary/Hourly Wage Reduction Safe Harbor
  - A safe harbor exempts borrowers from the loan forgiveness reduction based on salary/hourly wage reduction if both of the following conditions are met:
    - The borrower reduced the employee's annual salary/hourly wage in the period beginning February 15, 2020 and ending on April 26, 2020, and
    - The Borrower then restored the employee's annual salary/hourly wage by no later than June 30, 2020 to the employee's annual salary/hourly wage at February 15, 2020.
- The following calculation will need to be completed for **each** employee employed during the Covered Period or Alternative Covered Period. This will include the whether the salary/hourly wage reduction safe harbor applies to the employee.
  - The computation uses salary for salaried employees and hourly wage (rate) for hourly employees.

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

- a. Computer average annual salary or hourly wage during Covered Period or Alternative Payroll Covered Period: \_\_\_\_\_.
- b. Compute average annual salary or hourly wage between January 1, 2020 and March 31, 2020: \_\_\_\_\_.
- c. Divide the value entered in 1.a. by 1.b.: \_\_\_\_\_.

If 1.c. is 75% or more, there is no applicable salary/hourly wage reduction for the employee; otherwise proceed to Step 2.

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

a. Compute the annual salary or hourly wage as of February 15, 2020: \_\_\_\_\_.

b. Compute the average annual salary or hourly wage between February 15, 2020 and April 26, 2020: \_\_\_\_\_.

If 2.b. is equal to or greater than 2.a., skip to Step 3 (Salary/Hourly Wage Reduction Safe Harbor does not apply). Otherwise, proceed to 2.c.

c. Enter the average annual salary or hourly wage as of June 30, 2020: \_\_\_\_\_.

If 2.c. is equal to or greater than 2.a., the Salary/Hourly Wage Reduction Safe Harbor has been met – there is no applicable salary/hourly wage reduction for the employee.

**Step 3.** Determine the Salary/Hourly Wage Reduction.

a. Multiply the amount entered in 1.b. by 0.75: \_\_\_\_\_.

b. Subtract the amount entered in 1.a. from 3.a.: \_\_\_\_\_.

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

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 8: \_\_\_\_\_. This is the hourly wage reduction 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 8: \_\_\_\_\_. Divide this amount by 52: \_\_\_\_\_. This is the salary reduction for that employee.

**Example: Salaried Employee**

Employee A was paid \$8,000 during the 8 week Covered Period. Employee A was paid \$20,000 for the period January 1, 2020 through March 31, 2020. Assume Employee A's salary was not restored to his February 15, 2020 salary level by June 30, 2020.

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

a. Compute average annual salary during Covered Period or Alternative Payroll Covered Period: **\$52,000 (\$8,000/8\*52)**

b. Compute average annual salary between January 1, 2020 and March 31, 2020: **\$80,000 (\$20,000\*4)**

c. Divide the value entered in 1.a. by 1.b.: **65% (\$52,000/\$80,000)**

Since 1c is less than 75%; proceed to Step 2.



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

a. Compute the annual salary or hourly wage as of February 15, 2020: **\$80,000 (assuming salary was same for entire 1<sup>st</sup> quarter 2020)**

b. Compute the average annual salary between February 15, 2020 and April 26, 2020: **\$52,000 (assuming salary was reduced during this time period)**

If 2.b. is equal to or greater than 2.a., skip to Step 3 (Salary/Hourly Wage Reduction Safe Harbor does not apply). Otherwise, proceed to 2.c.

c. Enter the average annual salary as of June 30, 2020: **\$52,000 (assuming his salary is not increased at June 30)**

Since his salary at June 30 is not at his February 15 level the Salary/Hourly Wage Reduction Safe Harbor has not been met. Go to Step 3.

**Step 3.** Determine the Salary/Hourly Wage Reduction.

a. Multiply the amount entered in 1.b. by 0.75: **\$60,000 (\$80,000\*.75)**

b. Subtract the amount entered in 1.a. from 3.a.: **\$8,000 (\$60,000-\$52,000)**

Since Employee A 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 8: **\$64,000 (\$8,000\*8)**. Divide this amount by 52: **\$1,230 (\$64,000/52)**. This is the salary reduction for that employee.

**Example: Hourly Employee**

Employee A has an average hourly rate of \$26/hr during the eight week Covered Period. Employee A has an average hourly rate of \$40/hour during the period January 1, 2020 through March 31, 2020 and worked an average of 40 hours per week during this period. Assume Employee A's hourly rate was not restored to his February 15, 2020 hourly rate by June 30.

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

a. Compute average hourly wage during Covered Period or Alternative Payroll Covered Period: **\$26/hr**

b. Compute average hourly wage between January 1, 2020 and March 31, 2020: **\$40/hr**

c. Divide the value entered in 1.a. by 1.b.: **65% (\$26/\$40)**

Since 1c is less than 75%, proceed to Step 2.

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

a. Compute the hourly wage as of February 15, 2020: **\$40/hr (assume hourly rate was same for entire 1<sup>st</sup> quarter 2020)**

b. Compute the average hourly wage between February 15, 2020 and April 26, 2020: **\$26/hr (assume reduction occurred during this time period)**

If 2.b. is equal to or greater than 2.a., skip to Step 3 (Salary/Hourly Wage Reduction Safe Harbor does not apply). Otherwise, proceed to 2.c.

c. Enter the average hourly wage as of June 30, 2020: **\$26/hr (assume his hourly rate is not increased as of June 30)**

Since his hourly rate at June 30 is not at his February 15 level the Salary/Hourly Wage Reduction Safe Harbor has not been met. Go to Step 3.

**Step 3.** Determine the Salary/Hourly Wage Reduction.

a. Multiply the amount entered in 1.b. by 0.75: **\$30/hr (\$40\*.75)**

b. Subtract the amount entered in 1.a. from 3.a.: **\$4/hr (\$30-\$26)**

Since Employee A is an hourly worker, compute the total dollar amount of the reduction that exceeds 25% as follows:

c. Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020: **40 hours**

d. Multiply the amount entered in 3.b. by the amount entered in 3.c.: **\$160 (\$4\*40)**. Multiply this amount by 8: **\$1,280 (\$160\*8)**. This is the hourly wage reduction for that employee.

### **Loan Forgiveness Amount**

- The loan forgiveness amount is calculated as follows:

#### **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

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction

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

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7)

Line 9. PPP Loan Amount

Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75)

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10)

- Note that per the application instructions, the SBA will deduct EIDL Advance Amounts from the forgiveness amount. The EIDL Advance Amounts are the EIDL grant amounts for \$1,000 per employee with a cap of \$10,000.

## **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:
- c. Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
- d. State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- e. 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 month employed by the Borrower between February 15, 2019 and June 30, 2019;
- b. the average number of FTE employees on payroll per month 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 month employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve-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, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule.
- d. Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor.”

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.

### **Tax Issues**

- Under the CARES Act, the amount of loan forgiveness is not taxable income
- IRS ruled that expenses paid with PPP loan proceeds to the extent forgiven are not deductible for tax purposes. (IRS Notice 2020-32 provides that under IRC 265, expenses paid with income exempt from tax are not deductible).
- Deductibility of expenses paid with forgiven PPP loan proceeds must be provided for legislatively. Several senators and congressmen have proposed a legislative fix.

Questions: Please contact

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