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Beneficial State Bank Paycheck Protection Program - Loan Forgiveness Process

January 5, 2021

AGENDA

Introductions

PPP forgiveness legislative updates

PPP forgiveness eligible costs

Applicant forms/filing requirements

Software tutorial

Owner compensation rules

Supporting documentation

Applicant support

Today's Presenters



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Disclaimer

This presentation is based on Abrigo's interpretation of the latest guidance provided by the Small Business Administration (SBA), United States Department of the Treasury and stimulus bill, Title III, issued 12/21/2020. We do not accept any responsibility for our interpretations of the new legislation for which the SBA has not yet issued formal guidance.

We recognize that this guidance may be further updated and commit to having a compliant Paycheck Protection Program solution available for our customers.



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PPP Forgiveness Legislative Updates – Applies to Round 1 and 2 Originations

Legislation Forgiveness Components

- Simplified one-page forgiveness certification for loans of \$150,000 or less
 - Recommendation - Hold off completing the forgiveness application until the one-page certification is provided by the SBA (not later than 24 days after the date of enactment of the legislation)
- Additional allowable expenses that can be claimed for forgiveness

Loans of \$150,000 or Less

- Simplified one-page forgiveness certification
- Simplified form details -
 - Applicant provides the number of employees retained because of the PPP loan
 - Applicant provides the estimated amount of the PPP loan spent on payroll costs
 - Optional demographic information section
 - Applicant attests to the accuracy of and compliance with certification requirements
 - Applicant signs/submits the certification to their lender
 - Applicant retains records of compliance with respect to employment records for 4 years following submission of the form - 3 years for other records



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PPP Forgiveness - Eligible Costs (including legislative updates)

PPP Forgiveness Eligible Costs

- Payroll - (60% requirement for **full** forgiveness for standard forms)
 - Owner cash compensation (capped depending on entity type)
 - Employee cash compensation (capped at \$100k annualized pro rated for Covered Period)
 - Employer-paid health premiums (**group life, disability, vision, and dental insurance added as eligible expenses in legislation**)
 - Employer-paid retirement contributions
 - Employer-paid state and local payroll taxes
- Non-payroll (Services must have been in place prior to 2/15/2020)
 - Mortgage interest on business real or personal property
 - Base rent on business real or personal property – related landlord limits
 - Utilities (electric, natural gas, water, telephone, internet service)

PPP Forgiveness Eligible Costs

- Operations Expenses - Business software (including cloud services) that facilitates business operations, product/service delivery, processing, payment, or tracking of payroll, human resources, sales and billing functions, accounting or tracking of supplies and inventory
- Property Damages - Costs related to property damage and vandalism or looting due to public disturbances that occurred during 2020, and expenses were not covered by insurance or other compensation
- Supplier costs - Costs made to a supplier of goods that are essential to the applicant's operations at the time of payment and supported by a contract, order, or purchase order in effect at any time **before** the Covered Period (loan origination date)
 - Perishable goods – contract or PO in effect before or at any time **during** the Covered Period

PPP Forgiveness Eligible Costs

- Worker protection costs - Operating or capital expense to assist in adapting the applicant's business activities to comply with requirements issued by HHS, the CDC, or OSHA, or any equivalent requirements issued by your state or local government, beginning on March 1, 2020 and ending the date on which the national emergency with respect to COVID-19 expires related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19 (or the end of your Covered Period, if earlier)

PPP Forgiveness Eligible Costs

- Worker protection costs examples -
 - Drive-through window facility
 - Indoor, outdoor, or combined air or air pressure ventilation or filtration system
 - A physical barrier such as a sneeze guard
 - Expansion of additional indoor, outdoor, or combined business space
 - Onsite or offsite health screening capability
 - Personal protective equipment
 - Does not include residential real property
- Covered period definition
- Difference between paid/incurred, prepaid and paid in arrears



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Applicant Forms/Filing Requirements

Applicant Forgiveness Forms

- Simplified one-page certification for loans of \$150,000 or less
- Form 3508EZ (loans over \$150,000 and meeting certain criteria)
- Form 3508 (loans over \$150,000 and not meeting the Form 3508EZ criteria)

Form 3508EZ – loans >\$150,000 and -

- 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.

Form 3508

- For applicants, whose loans are above \$150,000 and don't meet EZ form criteria
- All information as in the 3508EZ form, PLUS;
- Schedule A (must distinguish between employees making < > \$100,000 in 2019)
- Include average FTEs for the Covered Period
- Salary/wage reduction dollars (if more than a 25% reduction during Covered Period compared to Q1 2020)
- Full-time equivalency (FTE) reduction calculations required (safe harbors tests)
- FTE reductions section (comparison to a reference period)

Applicant Filing Requirements

- Submit appropriate form (one-page certification, 3508EZ, 3508)
- Submit supporting documentation and signed certification for EZ and long form
- Submission deadline:
 - Applicant can file anytime on or before the maturity date of your loan
 - Applicant can file before the end of the Covered Period – if the applicant has used all loan proceeds
- If applicant does not apply for loan forgiveness within 10 months after the last day of the Covered Period, the applicant must begin paying principal and interest on the loan



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PPP Forgiveness Software Tutorial



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Owner Compensation Rules – Forms 3508EZ and 3508

How is the amount of owner compensation that is eligible for loan forgiveness determined?

Three tests for owner cash compensation cap:

- SBA cap - Owner-employees and self-employed individuals' payroll compensation are capped at \$20,833 per owner in total **across all businesses** for a 24-week Covered Period and capped at \$15,385 for an 8-week Covered Period. If total compensation across businesses that receive a PPP loan exceeds the cap, owners can choose how to allocate the capped amount across different businesses
- Entity structure/Tax return from cap - Identify your entity structure and/or type of tax return you filed in 2019 to determine cap
- Cash compensation paid during the Covered Period cap

How is amount of owner-employee compensation that is eligible for loan forgiveness determined?

C Corporations:

- Owner cash compensation – capped at lower of (1) 2.5/12 (or 8/52) of his 2019 employee cash compensation, (2) Amount paid during Covered Period, or (3) SBA caps of \$15,385 for 8-week or \$20,833 for 24-week Covered Period
- Include employer state and local taxes on owner compensation
- Include employer contributions for owner health insurance
- Employer contribution to owner retirement plans capped lower of (1) 2.5/12 (or 8/52) of the 2019 employer retirement contribution, or (2) Amount paid during Covered Period

How is amount of owner-employee compensation that is eligible for loan forgiveness determined?

S Corporations:

- Owner cash compensation – capped at lower of (1) 2.5/12 (or 8/52) of his 2019 employee cash compensation, (2) Amount paid during Covered Period, or (3) SBA caps of \$15,385 for 8-week or \$20,833 for 24-week Covered Period
- Include employer state and local taxes paid on owner compensation
- Employer payments for owner health insurance are not eligible for owner-employees with at least a 2% stake in business, including for owner family members of an at least 2% owner because those contributions are included in cash compensation
- Employer contributions to owner retirement plans capped at 2.5/12 (or 8/52) of the 2019 employer retirement contribution

How is amount of owner-employee compensation that is eligible for loan forgiveness determined?

Self-employed Schedule C (or Schedule F) filers:

- Self-employed Schedule C (or Schedule F)-sole proprietors, self-employed individuals, independent contractors:
 - Limited to 2.5/12 (or 8/52) of 2019 net profit reported on IRS Form 1040 Schedule C line 31 (or 2.5/12 of 2019 net farm profit, as reported on IRS Form 1040 Schedule F line 34) (or for new businesses, the estimated 2020 Schedule C (or Schedule F))
- Cannot include payments for health insurance, retirement, or state or local taxes
- 2019 IRS Form 1040 Schedule C (or F) must be submitted with the forgiveness application

How is amount of owner-employee compensation that is eligible for loan forgiveness determined?

General Partners:

- Compensation limited to 2.5/12 (or 8/52) of 2019 net earnings from 2019 IRS Form 1065 Schedule K-1 box 14a (reduced by box 12 section 179 expense deduction, unreimbursed partnership expenses deducted on their IRS Form 1040 Schedule SE, and depletion 5 As of August 4, 2020 claimed on oil and gas properties) multiplied by 0.9235
- Any compensation only eligible if payments to partners are made during the Covered Period
- Cannot include health insurance, retirement, or state/local taxes
- Submit 2019 IRS Form 1065 K-1s with the forgiveness application.

How is the amount of owner compensation that is eligible for loan forgiveness determined?

LLC owners:

LLC owners must follow the instructions that apply to how their business was organized for tax filing purposes for tax year 2019, or if a new business, the expected tax filing situation for 2020. (Form 1120, 1065, or 1040 Schedule C)



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Supporting Documentation- Forms 3508EZ and 3508

PPP Forgiveness Documents Submission

Payroll:

Documentation verifying 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 Applicant included in the forgiveness amount. (Form 3508: PPP Schedule A, lines (6) and (7)).

Form 3508EZ: If you checked only the second box for EZ form criteria, you must submit the average number of full-time equivalent employees on payroll employed by the Applicant on January 1, 2020 and at the end of the Covered Period.

PPP Forgiveness Documents Submission

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 before 2/15/2020 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 before 2/15/2020 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 before 2/15/2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments

PPP Form 3508 Documents Submission

FTE: Documentation for one of the reference periods below:

- The average number of FTE employees on payroll per week employed by the Applicant between February 15, 2019 and June 30, 2019;
- The average number of FTE employees on payroll per week employed by the Applicant 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 week employed by the Applicant 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

PPP Forgiveness Applicant Records (for safe harbors)

- Documentation supporting the certification, if applicable, that the Applicant was unable to operate between 2/15/2020 and the end of the Covered Period at the same level of business activity as before 2/15/2020:
 - Due to compliance with requirements or guidance issued between 3/1/2020 and 12/31/2020 by HHS, CDC, or OSHA, or state/local restrictions related to sanitation, social distancing, or customer safety requirements from COVID-19.
 - This documentation must include copies of the applicable requirements for each Applicant location and relevant Applicant financial records.

PPP Forgiveness Applicant Records

- Documentation regarding 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 inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020.
- The Applicant must retain all 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

PPP Form 3508EZ Applicant Records

- 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);

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PPP Form 3508 Applicant Records

- Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
- 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.
- Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor 2.”

Applicant Support



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Resource Page Applicant Videos

- <https://www.web.abrigo.com/beneficial-state-bank-ppp-forgiveness>
 - Supporting Documentation Requirements
 - Accessing the Application and Getting Started
 - Form 3508 EZ Completion
 - Form 3508 Manual Input
 - For applicants using calculation spreadsheet:
 - Schedule A – Overview
 - Schedule A – Getting Started and Salary/Hourly Wage Step 1
 - Schedule A – Salary/Hourly Wage Step 2
 - Schedule A – Salary/Hourly Wage Step 3
 - Schedule A – FTE Reduction Calculation
 - Schedule A – Safe Harbor Calculation
 - Schedule A – Uploading Spreadsheet and Finishing Schedule A
 - Finishing the Application

Other Forgiveness Application Support

Form 3508EZ Instructions link:

<https://home.treasury.gov/system/files/136/PPP-Loan-Forgiveness-Application-Form-EZ-Instructions.pdf>

Form 3508 Instructions link:

https://home.treasury.gov/system/files/136/PPP-Loan-Forgiveness-Application-Instructions_1_0.pdf

Please contact your banker with additional questions or if you would like a copy of this webinar recording and/or slide presentation

Thank You

