

# Paycheck Protection Program: Loan Forgiveness

Kelsey Vatsaas and Jordan Smith

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Create Opportunities

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- *This presentation considers guidance provided by the SBA and US Department of the Treasury through 5/27/2020. Additional guidance is being provided on a regular basis, please refer to the US Department of the Treasury website (<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>) for recent updates.*



# Presenters



**Jordan Smith, CPA**  
Principal – Construction  
Outsourced Business  
Operations



**Kelsey Vatsaas, CPA, MBA**  
Principal – Nonprofit  
Outsourced Business  
Operations



# Create Opportunities



## Our purpose

CLA exists to create opportunities — for our clients, our people, and our communities.



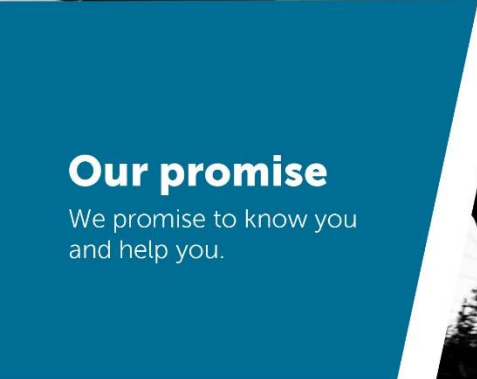
## Strategic advantages

Deep industry specialization

Seamless, integrated capabilities

Premier resource for private businesses and owners

Inspired careers



## Our promise

We promise to know you and help you.



## CLA family culture

One family working together to create opportunities.



# Facts: Our Clients

**2,100+**

clients engaging  
global capabilities

**20,000+**

clients engaging  
outsourcing capabilities

**3,500+**

clients served by  
CLA Wealth Advisors

**4,200+**

clients engaging  
employee benefit plan  
capabilities

**8,700+**

nonprofit and  
government  
organizations served

**89,000+**

private  
households served

**1,500+**

financial  
institutions served

**50,000+**

private  
businesses served

**8,300+**

health care  
organizations served





## Recent Updates

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# Updates

- 5/13/2020 – IFR issued to re-size loans for partnerships and seasonal employers
- 5/15/2020 - Forgiveness application released
- 5/18/2020 – Final (extended) deadline for Safe Harbor return of funds
- 5/28/2020 – House passed HR 7010 – Paycheck Protection Flexibility Act
  - Extends 8 week period to 24 weeks to spend the funds on forgivable costs
  - Lowers from 75% to 60% the portion of funds spent on payroll costs
  - Extends term period for loans from 2 to 5 years
  - Allows companies with PPP forgiveness to delay payroll tax payments
- As of 6/2/2020; Senate rumored to be taking up the House bill this week
- As of late May, over 4.5 million PPP loans have been approved totaling \$510.5B. Over \$135B remains for lending



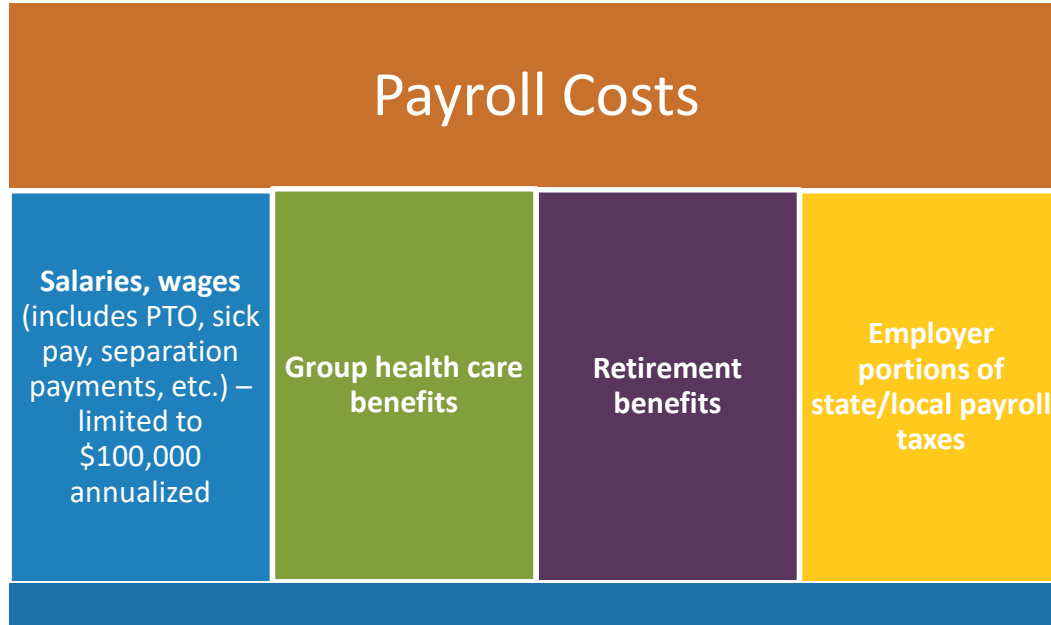


# Allowable Uses

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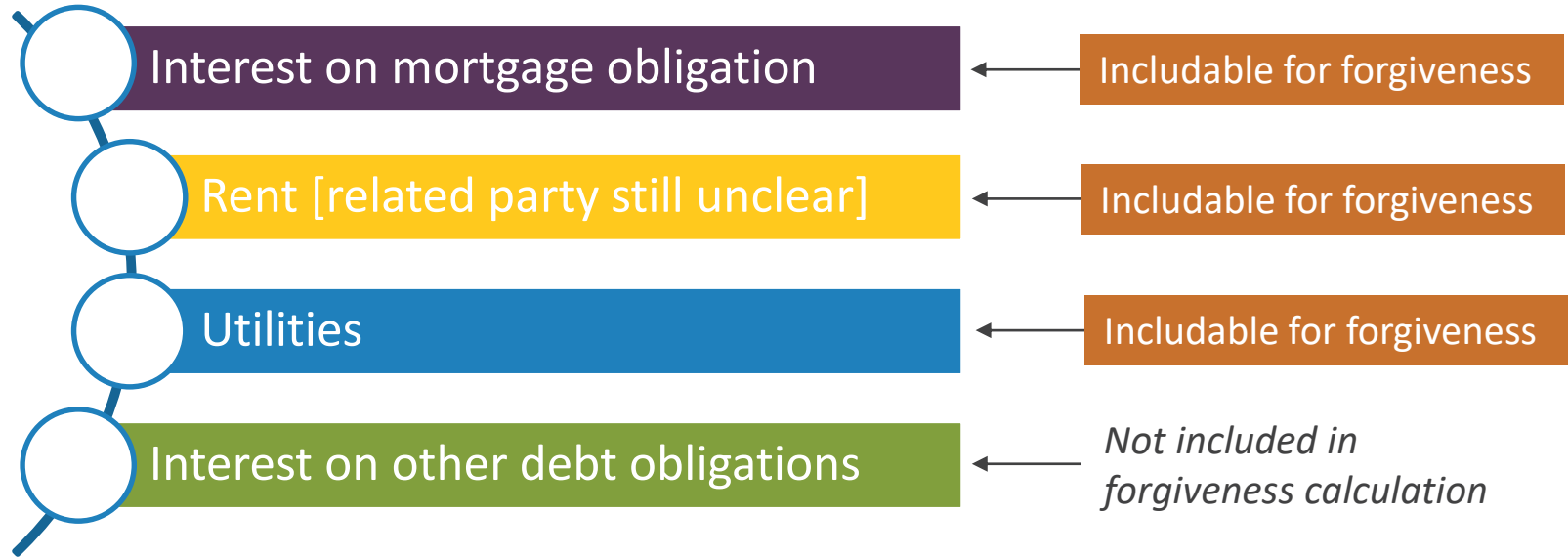
# Allowable Uses



## Common Questions:

- FICA is **excluded**
- FFCRA credits **excluded**
- Bonus/hazard pay **includable**
- Self-insured/funded medical plan costs - **unclear**

# Allowable Uses – Non-Payroll





# Forgiveness

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# Basics of Forgiveness

- Project now to consider operational decisions that may impact (rehires, furloughs, pay reductions)
- Forgiveness may be all, partial, or none
- Loan forgiveness application (Form 3508) to be completed by Borrower
- No set time by SBA for submitting by borrower
  - Consider holding off given additional guidance or changes likely
  - Loan agreement may have deadline



# Form 3508

- Loan Forgiveness Application
- Aggregates Forgivable Costs
- Calculates FTE and Wage Reductions
- 3 Potential Forgiveness Amounts, Select the Lowest
- Information Comes from Supporting Schedules



**PPP Loan Forgiveness Calculation Form**

Business Legal Name ("Borrower")		DEA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		( ) -	
		Primary Contact	E-mail Address

SBA PPP Loan Number: \_\_\_\_\_ Lender PPP Loan Number: \_\_\_\_\_

PPP Loan Amount: \_\_\_\_\_ PPP Loan Disbursement Date: \_\_\_\_\_

Employees at Time of Loan Application: \_\_\_\_\_

Employees at Time of Forgiveness Application: \_\_\_\_\_

EIDL Advance Amount: \_\_\_\_\_ EIDL Application Number: \_\_\_\_\_

Payroll Schedule: The frequency with which payroll is paid to employees is:

Weekly  Biweekly (every other week)  Twice a month  Monthly  Other \_\_\_\_\_

Covered Period: \_\_\_\_\_ to \_\_\_\_\_

Alternative Payroll Covered Period, if applicable: \_\_\_\_\_ to \_\_\_\_\_

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here:

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10): \_\_\_\_\_

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 (enter the amount from PPP Schedule A, line 3): \_\_\_\_\_

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 (enter the number from PPP Schedule A, line 13): \_\_\_\_\_

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): \_\_\_\_\_



# Certifications

- Borrower responsibility
- Forgiveness request for “payroll costs to retain employees”
- SBA can deny forgiveness request



**By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:**

The authorized representative of the Borrower certifies to all of the below by initialing next to each one.

- The dollar amount for which forgiveness is requested:
  - was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
  - includes all applicable reductions due to decreases in the number of full-time equivalent employees and salary/hourly wage reductions;
  - does not include nonpayroll costs in excess of 25% of the amount requested; and
  - does not exceed eight weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
- I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
- The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.
- I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
- The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
- I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

\_\_\_\_\_  
Signature of Authorized Representative of Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title



# Schedule A

- Summarizes payroll cost information
- Calculates FTE reduction quotient
- FTE Safe Harbor if no Reduction in:
  - # of employees
  - Avg paid hours



## PPP Schedule A

### PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:  
If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here  and enter 0 on line 3.

### PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:

### Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

Line 6. Total amount paid by Borrower for employer contributions for employee health insurance:

Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans:

Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation:

### Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners:  
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each.

### Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9):

### Full-Time Equivalency (FTE) Reduction Calculation

If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period, check here , skip lines 11 and 12 and enter 1.0 on line 13.

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 FTE Safe Harbor is met:



# Schedule A Worksheet

- Employee level detail
- Two tables, determined 2019 comp > \$100k
- Wage reduction for >\$100k employees
- Only includes employees during covered period
- FTE reduction safe harbor



## PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States, and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary/ Hourly Wage Reduction
<b>FTE Reduction Exceptions:</b>				
<b>Totals:</b>		<b>Box 1</b>	<b>Box 2</b>	<b>Box 3</b>

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
<b>Totals:</b>		<b>Box 4</b>	<b>Box 5</b>

Attach additional tables if additional rows are needed.

### FTE Reduction Safe Harbor:

- Step 1. Enter the borrower's total average FTE between February 15, 2020 and April 26, 2020. Follow the same method that was used to calculate Average FTE in the PPP Schedule A Worksheet Tables. Sum across all employees and enter: \_\_\_\_\_.
- Step 2. Enter the borrower's total FTE in the Borrower's pay period inclusive of February 15, 2020. Follow the same method that was used in step 1: \_\_\_\_\_.
- Step 3. If the entry for step 2 is greater than step 1, proceed to step 4. Otherwise, the FTE Reduction Safe Harbor is not applicable and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.
- Step 4. Enter the borrower's total FTE as of June 30, 2020: \_\_\_\_\_.
- Step 5. If the entry for step 4 is greater than or equal to step 2, enter 1.0 on line 13 of PPP Schedule A; the FTE Reduction Safe Harbor has been satisfied. Otherwise, the FTE Reduction Safe Harbor does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.



# Schedule A Worksheet Instructions

- Salary/wage reduction mechanics
- Safe Harbors for:
  - FTE Reductions (All or Nothing)
  - Wage Restoration
- FTE exceptions

**Salary/Hourly Wage Reduction:** This calculation will be used to determine whether the Borrower's loan forgiveness amount must be reduced due to a statutory requirement concerning reductions in employee salary and wages. Borrowers are eligible for loan forgiveness for certain expenditures during the Covered Period or the Alternative Payroll Covered Period. However, the actual amount of loan forgiveness the Borrower will receive may be less, depending on whether the salary or hourly wages of certain employees during the Covered Period or the Alternative Payroll Covered Period was less than during the period from January 1, 2020 to March 31, 2020. If the Borrower restored salary/hourly wage levels, the Borrower may be eligible for elimination of the Salary/Hourly Wage Reduction amount. Borrowers must complete this worksheet to determine whether to reduce the amount of loan forgiveness for which they are eligible. Complete the Salary/Hourly Wage Reduction column only for employees whose salaries or hourly wages were reduced by more than 25% during the Covered Period or the Alternative Payroll Covered Period as compared to the period of January 1, 2020 through March 31, 2020. For each employee listed in Table 1, complete the following (using salary for salaried employees and hourly wage for hourly employees):

- Step 1. Determine if pay was reduced more than 25%.
- Enter average annual salary or hourly wage during Covered Period or Alternative Payroll Covered Period: \_\_\_\_\_
  - Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020: \_\_\_\_\_
  - Divide the value entered in 1. a. by 1. b.: \_\_\_\_\_  
If 1. c. is 0.75 or more, enter zero in the column above box 3 for that employee; otherwise proceed to Step 2.
- Step 2. Determine if the Salary/Hourly Wage Reduction Safe Harbor is met.
- Enter the annual salary or hourly wage as of February 15, 2020: \_\_\_\_\_
  - Enter 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. Otherwise, proceed to 2. 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 – enter zero in the column above box 3 for that employee. Otherwise proceed to Step 3.
- Step 3. Determine the Salary/Hourly Wage Reduction.
- Multiply the amount entered in 1. b. by 0.75: \_\_\_\_\_
  - Subtract the amount entered in 1. a. from 3. a.: \_\_\_\_\_

SBA Form 3508 (05/20)  
Page 7



## Paycheck Protection Program Loan Forgiveness Application

OMB Control Number 3245-0407  
Expiration Date: 10/31/2020

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

- Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020: \_\_\_\_\_
- Multiply the amount entered in 3. b. by the amount entered in 3. c. \_\_\_\_\_ Multiply this amount by \$: \_\_\_\_\_ Enter this value in the column above box 3 for that employee.

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

- Multiply the amount entered in 3. b. by 3: \_\_\_\_\_ Divide this amount by 52: \_\_\_\_\_ Enter this value in the column above box 3 for that employee.

**FTE Reduction Exceptions:** Indicate the FTE of (1) any positions for which the Borrower made a good-faith, written offer to rehire an employee during the Covered Period or the Alternative Payroll Covered Period which was rejected by the employee, and (2) any employees who during the Covered Period or the Alternative Payroll Covered Period (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested and received a reduction of their hours. In all of these cases, include these FTEs on this line only if the position was not filled by a new employee. Any FTE reductions in these cases do not reduce the Borrower's loan forgiveness.

**Boxes 1 through 5:** Enter the sums of the amounts in each of the columns.

### FTE Reduction Safe Harbor

A safe harbor under applicable law and regulation exempts certain borrowers from the loan forgiveness reduction based on FTE employee levels. Specifically, the Borrower is exempt from the reduction in loan forgiveness based on FTE employees described above if both of the following conditions are met: (1) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (2) the Borrower then restored its FTE employee levels by not later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.



## Documentation

- Payroll reports and payroll tax filings
- Third party invoices
- Underlying mortgage, debt and lease agreements (to document in place before 2/15/2020)
- Cancelled checks
- Bank statements (if you use separate account)



# Payroll Costs

- For bi-weekly or more frequent payrolls - ***Alternative Payroll Covered Period (APCP)*** starting first day of first pay period following PPP loan disbursement
- Submit on **Schedule A** and **Schedule A Worksheet**
- Flexibility to include costs ***incurred during*** CP or APCP and ***paid on or before next regular payroll date***
- Potential to include payroll costs incurred prior to the CP or APCP ***if paid during the CP or APCP***
- Subject to \$15,385 max during the 8-week period
- Non-cash payroll costs (healthcare, retirement, ER state taxes) must be paid during CP or APCP



## Non-Payroll Costs

- Flexibility to include costs incurred during the CP if ***paid on or before next regular billing date***
- No prepayments of future interest on mortgage debt, but unclear about rent and utilities expenses
- Potential to include additional non-payroll costs incurred prior to the CP ***if paid during the CP***
- Max forgiveness amount of 25% for non-payroll costs



# Forgiveness – Items to Consider

Lowest of the three amounts calculated below

#1 How much did the entity spend on allowable costs?  
(lines 1 -4)

#2. Did the entity maintain wages at least 75% of prior quarter?  
(excludes high earners)  
(line 5, Schedule A, line 3)

#3. Did the entity maintain FTEs?  
(includes re-hires thru 6/30)  
(line 7, Schedule A , line 13)

#4. What was the PPP loan amount?  
(line 9)

#5. Was enough of that spending on payroll? (25% limit on non-payroll)  
(line 10)

#6 Did entity receive EIDL advance (up to \$10,000)?



# Wage Reduction Test

- Measured using average salary or hourly wage
  - (CP or APCP compared to Q1 2020)
- Only applies to employees during the CP or APCP (i.e., no penalty for non-rehires) and < \$100k in 2019
- No penalty for reduction in hours
- Safe harbor if wages not reduced or reinstated as of June 30, 2020, when compared to Feb 15, 2020
- Forgiveness reduction (if any) applies to full 8-week period, regardless if employee there for the entire period



## 2 Methods for Full-Time Equivalent Employees

### Standard Method

- Full-time employee (40+ hours / week) = 1 FTE
- Part-time employee = aggregate # of hours / 40
- Calculate for each pay period and use an average for the CP or APCP

### Simplified Method

- Full-time employee (40+ hours / week) = 1 FTE
- Part-time employee = 0.5 FTE (regardless of hours)
- Calculate for each pay period and use an average for the CP or APCP

# EIDL Advance (Up to \$10,000)

Reduction Test #5		
Did Entity Receive an EIDL Advance (up to \$10,000)?		
Result	Yes	
Reduction	\$	5,000
Detailed Calculation		
EIDL Advance	\$	5,000

# Inconsistencies with Law and Rules

- **Payroll Costs:**
  - Paid, but Not Incurred (comp in arrears)?
  - Are Prepayments Allowed?
- **Nonpayroll Costs:**
  - Paid, but Not Incurred (costs in arrears)?
  - Are Prepayments Allowed?
- **Self-Employed:** Does Forgiveness Include Employee Costs and Nonpayroll on Schedule C?
- **Simplified FTE Safe Harbor:** If no reduction in employees or wages between January 1, 2020 and the end of CP



## How CLA Can Help...

- Consultation on Forgiveness and other PPP matters
- PPP Forgiveness Calculator
- Assistance with Forgiveness Calculation and assembly of Forgiveness Package
- Outsourcing of Forgiveness Tracking and Calculation
- Working capital planning using CLA Intuition



# CLA Forgiveness Packages

**What:** fixed fee, easy to understand packages of services to help you!

All include access to our Forgiveness Tool to help you streamline all of the information and fill out the forgiveness application!

		Forgiveness Packages*			Forgiveness +
		Introductory \$1,000	Premium \$2,500	Custom Variable	Enterprise \$5,000
Tools	Access to CLA Forgiveness Tool	✓	✓	✓	✓
	Access to CLA Intuition® 2.0			✓ As needed	✓
Consultation	PPP Assistance-Forgiveness	✓ Consultative meeting(s) to assist with forgiveness tool (estimated 3-5 hours)	✓ Consultative meeting(s) to assist with forgiveness tool (estimated 4-6 hours)	✓ As needed	✓ Consultative meeting(s) to assist with CLA Forgiveness Tool, review of client-prepared model (estimated 6-8 hours)
	CLA Intuition 2.0 Consultation			✓ As needed	✓ Consultative meeting(s) and up to two re-runs of CLA Intuition 2.0 (estimated 4-6 hours)
Forgiveness Package	Package prepared for the banking institution to support PPP loan forgiveness		✓ CLA will perform review of the final client-prepared forgiveness package (estimated 4-6 hours)	✓ Full support populating the forgiveness tool and monitoring of the impact on total forgiveness  ✓ If requested, CLA will provide assistance to management as they work with their lender	✓ CLA will provide assistance to management as they work with their lender (estimated 2-4 hours)  ✓ CLA will perform review of the final client-prepared forgiveness package (estimated 4-6 hours)



# Resources

- Treasury Website –

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

- SBA Website –

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>

- CLA's COVID Relief Center

Bi-weekly Livestreams

<https://www.claconnect.com/COVID19>

- US Chamber of Commerce

<https://www.uschamber.com/coronavirus>





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