

# Jefferson Bank

## Borrowers PPP Loan Forgiveness

*Updated as of October 13, 2020 SBA guidance which is subject to change*

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### Checklist of Items for Borrower to Prepare for Loan Forgiveness

Determine which loan application you should use:

(1)Form 3508S, (2)Form 3508-EZ or (3)Form 3508

**Form 3508S** (simplest of the three applications) can be used if the total PPP loan amount you received from your Lender was \$50,000 or less. However, a borrower that, together with its affiliates (see 85 FR 20817 (April 15, 2020)) regarding application of SBA's affiliation rules and the exemption of otherwise qualified faith based organizations from SBA's affiliation rules), received PPP loans totaling \$2 million or more cannot use the Form 3508S. If you are not eligible to use this form, you must apply for forgiveness of your PPP loan using SBA Form 3508 or 3508-EZ.

Form 3508S only has one entry for the Forgiveness Amount

- Not required – FTE documents and calculation of salary/wage reductions.
- Required – documentation for payroll and non-payroll costs entered as the forgiveness amount — same as for the other application Forms.

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**Form 3508-EZ** (the mid-range of the three applications) can be used if one of these three applies to you:

1. You are a self-employed person with no employees.
2. You 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.” Importantly you do not have to count a reduction:
  - That arose from an inability to rehire individuals who were employees on February 15, 2020 and you were unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020 or
  - Reductions in an employee’s hours that a borrower offered to restore and were refused (including voluntary terminations and those terminated for cause).
3. You were unable to operate between February 15, 2020, and the end of 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.

If using Form 3508-EZ, and attesting there was not a reduction to annual salary or wages by more than 25% during the “Covered Period” compared to the period between January 1, 2020 and March 31, 2020, and there was no reduction to the number of employees or the average paid hours of employees between January 1, 2020 and the end of the “Covered Period”; evidence needs to be provided of the FTE count as of January 1, 2020 and at the end of the “Covered Period”, or, if sooner, when the application for forgiveness was submitted prior to the end of the “Covered Period”.

Determine your “Covered Period”: 8-weeks or 24-weeks

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## Data Accumulation for Determining Loan Forgiveness Amount

(For all applications unless otherwise noted)

Payroll reports that show gross wages, commissions and bonuses paid during the “Covered Period” or the “Alternative Payroll Covered Period.”

The next payroll report(s) following the end of the covered period that show gross wages, commissions and bonuses incurred during the “Covered Period” or the “Alternative Payroll Covered Period” that were not paid until afterwards.

Identity of non-owner employees that have “protected” wage and salary levels based on no single 2019 pay period exceeding \$100,000 when annualized.

Sort gross payroll based on protected wage employees, non-protected wage employees, and owners (any employee that owns any equity in the company).

Compensation, subject to the limited amounts, to all owner-employees, self-employed individuals, and general partners whose compensation must be included on line 9 of Schedule A of the Form 3508.

*Observation: You might choose to run preliminary numbers on the total spend of loan funds (considering any reductions) based only on payroll costs before gathering additional substantiation, especially if you are electing a 24-week covered period. Based on this preliminary calculation, gather only information sufficient to reach 100% forgiveness.*

Health insurance premiums or costs paid for self-insured plans that are borne by the employer (payments less amount withheld from employees’ paychecks) that are paid or incurred during the “Covered Period”. Also, include any incurred costs that are paid in the invoice following the close of the “Covered Period.” Accelerated payments of premiums cannot be counted.

Employer 401(k)/pension contributions paid or incurred (do not include amounts deducted from employees’ paychecks because those amounts are picked up in gross wages). Accelerated contributions cannot be counted.

State/local unemployment insurance premiums during the “Covered Period.”

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**Rent** on real property or personal property paid to unrelated persons/entities\* for the “Covered Period” (Agreements had to be in place on February 15, 2020).

\*According to SBA guidance released on August 24, 2020, rent payments made to a related party who owns the property are limited to the allocable interest on the underlying mortgage. If there is no mortgage, no forgiveness is allowed for related party rent payments (unless of course the related party is passing the rent on to an unrelated landlord).

**Interest** on mortgages paid for the “Covered Period” **must be in place on February 15, 2020.**

Cancelled checks

Copy of loan amortization schedule from lender must be submitted to the portal.

**Utilities** paid (invoices and proof of payment) for the “Covered Period” (Service had to be in place on February 15, 2020).

Electricity

Gas

Water

Telephone

Transportation utility fees imposed by state and local governments

Internet Access

## Perform Your Loan Forgiveness Calculation

For Form 3508 filers, you will need to begin with the Schedule A worksheet.

If you are receiving assistance from your CPA firm or other advisor, work with them to complete the Schedule A worksheet and analyze your potential loan forgiveness amount before submitting your application through the portal.

Alternatively, the portal has a Schedule A worksheet tool for your convenience and that tool will populate the actual loan forgiveness Form 3508 for you on the portal. You can run preliminary calculations and edit as needed and save your information until you are ready to finalize and submit.

Once you are satisfied that you selected the most advantageous “Covered Period” and included and documented all your eligible expenses needed to maximize loan forgiveness amount, submit your application via the portal for review.

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## Documents You Need to Submit to the Portal

**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:

Bank account statements or third-party payroll service provider reports documenting the amount of gross compensation paid to employees or bank statements if there is no third-party reports.

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”:

- Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941), or reports for same from a third-party payroll service provider (need 2nd Quarter for 8 weeks and 2nd and 3rd for 24 week period). If a PEO was used and 941s are not available, include a document showing the charge from the PEO.
- State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- REMINDER: Employer taxes (i/ei FICA, FUTA, etc) are NOT eligible for forgiveness.

Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance. No employee contributions are allowed to be included.

Payment receipts, cancelled checks, ACH transfer confirmation, or retirement plan statements. Provide proof of employer payment verses employee payments.

### Full Time Employees:

For **Form 3508** filers only, documentation showing one of these at the election of the Borrower:

The average number of FTE employees between February 15, 2019 and June 30, 2019;

The average number of FTE employees between January 1, 2020 and February 29, 2020; or

In the case of a seasonal employer, the average number of FTE per month between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or the average number of FTE employees for any consecutive twelve-week period between May 1, 2019 and September 15, 2019.

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For ***Form 3508-EZ*** filers that file as a result of not reducing the number of employees between January 1, 2020 and the end of the “Covered Period”, documentation showing the average number of FTE employees between January 1, 2020 and the end of the “Covered Period.”

**Nonpayroll:** Documentation verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the “Covered Period”.

Business mortgage interest payments:

Copy of lender amortization schedule, and either,

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.

Business rent or lease payments:

Copy of current lease agreement, and **either**,

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.

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.

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## Additional Documents Borrower Needs to Retain for 6 Years

If you **do not** use Forms 3508S or 3508-EZ, and therefore use Form 3508, you must retain PPP Schedule A Worksheet or its equivalent and the following:

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 regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule.

Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor.”

All records relating to your 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.

**You 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.**

