

Jefferson Bank

Borrowers PPP Loan Forgiveness

Updated as of February 5, 2021 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 \$150,000 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

Covered Operations Expenditures paid (invoices and proof of payment) for the “Covered Period” — these are payments for any business software or cloud computing service that facilitates business operations, product or service delivery, the processing, payment, or tracking of payroll expenses, human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records and expenses.

Covered Property Damage Costs paid (invoices and proof of payment) for the “Covered Period” — these are cost related to property damage and vandalism or looting due to public disturbances that occurred during 2020 that was not covered by insurance or other compensation

Covered Supplier Costs paid (invoices and proof of payment) for the “Covered Period”— these are expenditures made by a borrower to a supplier of goods that—(A) are essential to the operations of the borrower at the time at which the expenditure is made; and (B) is made pursuant to a contract, order, or purchase order

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Covered Worker Protection expenditures paid (invoices and proof of payment) for the “**Covered Period**” — these are operating or capital expenditures to facilitate the adaptation of the business activities of an entity to comply with requirements established or guidance issued by the Department of Health and Human Services, the Centers for Disease Control, or the Occupational Safety and Health Administration, or any equivalent requirements established or guidance issued by a State or local government, during the period beginning on March 1, 2020 and ending the date on which the national emergency with respect to the 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.

Documents You Need to Submit to the Portal

For Second Draw Loans in the amount of \$150,000 or less:

Proof of revenue reduction of no less than 25% or greater in 2020 as compared to 2019 in comparable quarters, or annually. (This MUST include affiliates unless an exemption applies).

One of the following are acceptable documentation:

Signed and dated profit and loss statements for Borrower and any affiliates (if more than one page, please initial and date subsequent pages).

- If the financial statements do not specifically identify the line item(s) that constitute gross receipts, the Applicant must annotate which line item(s) constitute gross receipts.

Quarterly or monthly bank statements for the entity showing deposits from the relevant quarters. The Applicant must annotate, if it is not clear, which deposits listed on the bank statement constitute gross receipts (e.g., payments for purchases of goods and services) and which do not (e.g., capital infusions).

Annual IRS income tax filings of the entity (required if using an annual reference period). If the entity has not yet filed a tax return for 2020, the Applicant must fill out the return forms, compute the relevant gross receipts value, and sign and date the return, attesting that the values that enter into the gross receipts computation are the same values that will be filed on the entity's tax return.

Revenue reduction – see FAQs dated March 12, 2021 for more details

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For all forgiveness applications EXCEPT 3508S:

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.

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.

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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.

