

PPP Loan Forgiveness Application: Overview

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On May 15, 2020, the Small Business Administration (SBA) issued [Paycheck Protection Program \(PPP\) Loan Forgiveness Application](#) (Application). The Application provides guidance for determining which costs can be included in ascertaining the loan forgiveness amount, calculation of full-time equivalency employees (FTEs), and what documents will need to be submitted with the Application.

Application

The Application is divided into three parts:

- PPP Loan Forgiveness Calculation Form,
- PPP Schedule A, and
- PPP Schedule A Worksheet.

PPP Loan Forgiveness Calculation Form documents the general calculation of the forgiveness including payroll costs, nonpayroll costs, adjustments for full-time equivalency employees and salary/hourly wage reductions, payroll cost percentage of potential forgiveness amount, forgiveness amount, and Borrower certifications.

PPP Schedule A covers the calculation of payroll costs and FTE reduction quotient.

PPP Schedule A Worksheet (Worksheet) supports the calculation of eligible cash compensation and the calculation of salary/hourly wage reductions. The Worksheet requires the Borrower to list every employee paid during the period, along with the last four digits of their Social Security number. Given the limited space on the form, most employers will be required to generate their own form to document all their employees.

The Worksheet is split into two parts:

- Table 1 is for employees who did not receive annualized pay of more than \$100,000 for any pay period in 2019.
- Table 2 is for employees who received compensation at an annualized rate of more than \$100,000 for any pay period in 2019.

Payroll Costs

The Application specifies that Borrowers are eligible for forgiveness of payroll costs paid and payroll costs incurred during the eight-week (56-day) period following receipt of loan disbursement (Covered Period). Payroll checks are paid on the day that paychecks are distributed or the Borrower originates an ACH credit transaction. This statement allows the Borrower to include payroll costs incurred prior to receiving the loan funds that are paid after receiving the loan funds. Additionally, the Borrower can include payroll costs incurred during the Covered Period and paid on or before the next regular payroll date after the Covered Period. Payroll is considered incurred on the day the employee earns the pay.

The Application also introduces an Alternative Payroll Covered Period (APCP) which allows Borrowers with a biweekly or more frequent payroll schedule to elect to use the eight-week period that begins on the first day of their first pay period following their PPP Loan Disbursement Date. Throughout the Application, certain parts reference the APCP or Covered Period. Whichever method is selected, it must be used consistently on these lines. The APCP does not apply to nonpayroll costs.

Nonpayroll Costs

The Application instructions also provide guidance on when eligible nonpayroll costs can be included in the forgiveness calculation. Nonpayroll costs must be paid during the Covered Period or incurred during the Covered Period and paid before the next regular billing date. The next regular billing date can be after the Covered Period.

Full-Time Equivalency Employees

The Application clarifies how full-time equivalency employees should be calculated. FTE employees will be based on a 40-hour work week. For each employee, the Borrower will calculate the average number of hours paid per week, divide by 40 and round to the nearest tenth. The maximum for each employee is limited to 1. The application also allows for the Borrower to elect to use a simplified method that assigns 1.0 for employees who work 40 or more hours and .5 to all other employees.

The Application also provides for exceptions where the FTE for the covered period does not have to be reduced. If an employee is fired for cause, voluntarily resigns, voluntarily requests and receives reduced hours, they can be included in the FTE count as long as their position was not filled by a new employee. Additionally, if a laid off employee rejects a written offer to be rehired, that employee can also be included in the FTE count for the Covered Period or APCP. Also, if a Borrower reduced their FTE count between February 15, 2020 and April 26, 2020 and restores its FTE count by June 30, 2020 to its FTE level in the Borrower's pay period that included February 15, 2020, then the Borrower is exempt from a loan reduction based on FTEs. There is still no guidance on how long restored FTEs have to be maintained; but the instructions do clarify that the employees hired to increase the FTE do not have to be the same employees who were let go.

Salary/Hourly Wage Reduction

The Application provides in its instructions a detailed step-by-step process for determining the salary/hourly wage reduction. This process must be repeated for all employees who are included on Table 1 of the Worksheet.

Documents to be Submitted with the Application

The Application requires the following information to be submitted with the Application:

- PPP Loan Forgiveness Calculation Form
- PPP Schedule A
- Optional PPP Borrower Demographic Information Form
- Support for payroll costs
 - Bank account statements or third party payroll service reports document the amount of cash compensation to employees
 - Tax forms, Form 941, state payroll tax returns
 - Payment receipts, cancelled checks, or account statements documenting the amount of employer contributions to employee health insurance and retirement plans included in the forgiveness amount
- FTE documentation showing:
 - Average number of FTE employees on payroll per month between 2/15/19 and 6/30/19
 - Average number of FTE employees on payroll per month between 1/1/20 and 2/29/20
 - Seasonal employer calculation
 - Must match PPP Schedule A, Line 11
- Nonpayroll costs
 - Mortgage interest – Amortization schedule, cancelled checks, account statements for February 2020 and Covered Period and one month after Covered Period

- Lease payments – Copy of lease agreement, cancelled checks, lessor account statements for February 2020, the Covered Period, and one month after the Covered Period
- Utility payments – Copy of invoices from February 2020, those paid during Covered Period, cancelled checks, and account statements verifying those eligible payments

Documents to be Maintained by Borrower

The Borrower is required to maintain for six years after the date the loan is forgiven or repaid in full all applicable backup related to the loan. The Borrower must permit authorized representatives of SBA, including its Office of Inspector General, access to such files upon request. Such documentation includes the information submitted for the loan Application and the following:

- Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet, Table 1, including applicable documentation of salary/hourly wage reduction calculation
- Documentation supporting each employee listed on PPP Schedule A Worksheet, Table 2, received during any single pay period in 2019 compensation with 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 employee for reduction in work schedule
- Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor”

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