

SBA Releases PPP Loan Forgiveness Application

Late on May 15, 2020, the U.S. Small Business Administration (SBA) released [Form 3508, Loan Forgiveness Application](#), that borrowers must complete to have their Paycheck Protection Program (PPP) loan forgiven. The form includes detailed information about the eligible cost for forgiveness and instructions for calculating those costs, as well as a list of documents to submit and documents that must be maintained but are not required for submission. Notable items include:

- The SBA has created a new alternative covered period for payroll costs to better align with biweekly or more frequent payroll cycles.
- Increased flexibility to include eligible payroll and nonpayroll expenses paid or incurred during the eight-week period after receiving a PPP loan.
- Clarification that the rule that 75 percent of the loan proceeds be used for payroll costs for loan forgiveness is not an all-or-nothing test—it will be applied as a calculated maximum that can be forgiven.

General

- The application includes a “check the box” to indicate whether the applicant (and affiliates if applicable) had PPP loans in excess of \$2 million. This is specifically to address FAQ 46 regarding loans in excess of \$2 million being subject to additional review by the SBA.
- Each employee who worked during the eight-week covered period must be listed on one of two tables on the Form 3508. The information needed for each employee is as expected but is still extensive.

Payroll Costs

- The first day of the covered period (CP) must be the same as the loan disbursement date.
 - If a borrower received its PPP loan proceeds on Monday, April 20, the first day of the CP is April 20 and the last day is June 14.
- Alternative payroll covered period (APCP). APCP is an eight-week period that begins on the first day of the first pay period following the date of receipt of the loan proceeds.
 - If a borrower received loan proceeds on Monday, April 20, and the first day of its first pay period following that date is Sunday, April 26, the first day of its APCP is April 26 and the last day is Saturday, June 20, regardless that the normal CP ends on Sunday, June 14.
- Payroll costs incurred but not paid during the borrower’s last pay period during the CP or the APCP are eligible for forgiveness if they are paid by the next regular payroll date, even if outside the CP or APCP.
- Payroll costs are considered paid on the day that paychecks are distributed, or the borrower originates an Automated Clearing House credit transaction that can be a day or two before the actual pay date to employees.
- Medical insurance costs include employer contributions to a self-insured plan.
- For all extraneous payroll costs (employee health insurance, retirement and state unemployment), the instructions state amounts paid during the CP or the APCP. That could have a very significant impact for self-insured borrowers.

Full-Time Equivalent (FTE)

- The FTE calculation is based on a 40-hour week. Add the total hours an employee was paid for during the eight-week CP or APCP and divide by eight. If the result, rounded to the nearest tenth, is 40 or greater, that is one FTE. If less, it is that portion of an FTE. A borrower can elect a simplified method whereby any

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employee with average hours paid per week over 40 is one FTE and any whose average hours paid is less than 40 hours can be counted as .50 FTE.

- A previous FAQ provided FTE reduction relief for certain employees who opted not to come back to work. This is now part of the FTE Reduction Exception (FTERE). The FTERE also includes any employee who during the CP or the ACP is 1) fired for cause, 2) voluntarily resigned or 3) voluntarily requested and received a reduction in hours. In all of these cases, you can increase the otherwise computed FTE for the employee to one in the numerator calculation. **Any FTE reductions in these cases do not reduce the borrower's loan forgiveness.** This does not apply, however, if you replaced that person.
- FTE Reduction Safe Harbor (FTERSH). A borrower will have no reduction in the forgiveness amount if two conditions are met:
 - Borrower reduced the FTE levels between February 15, 2020, and April 26, 2020, **and**
 - Not later than June 30, 2020, the FTE level is restored to the level during the pay period that included February 15, 2020.

Salary & Wage Reductions

- Loan forgiveness may be adjusted for reductions in employee wages or salaries. The reduction applies for a 25 percent or more rate reduction (not a total compensation reduction). The rate is either an hourly rate for those employees or the average annual salary for others. The comparison is between the CP or ACP to January 1, 2020, to March 31, 2020.
- The forgiveness reduction does not apply to any employee in the CP or ACP that had any one payroll period during 2019 where his or her gross pay when annualized was in excess of \$100,000. That equates to gross pay as follows:
 - Weekly pay period – \$1,924
 - Semimonthly pay period – \$4,167
 - Biweekly pay period – \$3,847
 - Monthly pay period – \$8,334
- All of the above can be eliminated for an employee under the Salary/Wage Reduction Safe Harbor. If an employee's average annual salary or average hourly rate for the period February 15, 2020, to April 26, 2020, is less than the same calculation for the payroll that includes February 15, 2020, and that employee's average annual salary or average hourly rate is restored no later than June 30, 2020, to the amount for the pay period that includes February 15, 2020, there is no forgiveness reduction attributable to that employee.

Nonpayroll Costs

- A borrower is not required to include the nonpayroll costs in the forgiveness calculation.
- If an expense is incurred and it is paid on or before the next billing date for the bill, it can be treated as a nonpayroll cost even if the next billing date is outside of the CP.

The 75 Percent for Payroll Tax Costs

- The 75 percent is applied after the Salary/Hourly Wage Reduction of the forgiveness amount and after the FTE reduction factor is applied.
- The calculation of the final forgiveness is the lesser of the loan amount, the payroll costs divided by 75 percent or the payroll and nonpayroll costs reduced by the FTE reduction and the Salary/Hourly Wage reduction. Due to the payroll costs divided by 75 percent being a factor, the payroll costs will never be less than 75 percent of the total amount forgiven.

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Conclusion

BKD will continue to follow this developing situation. As with most topics related to COVID-19, changes are being made rapidly. Please note that this information is current as of the date of publication. Visit [BKD's COVID-19 Resource Center](#) to learn more. If you have questions about these changes, contact your **BKD Trusted Advisor™** today.

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