

Paycheck Protection Program (PPP) FAQs

As of February 4, 2021

This series of frequently asked questions (FAQs) provide answers to questions we are hearing from our members about the Paycheck Protection Program (PPP). There are currently two draws available established and modified as follows:

1st Draw PPP – Created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act (effective March 27, 2020), modified by the Paycheck Protection Program Flexibility Act of 2020 (effective June 5, 2020) and by the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the Economic Aid Act), which became law as a part of the [Consolidated Appropriations Act, 2021](#). (effective Dec. 27, 2020).

2nd Draw PPP – Created by the Economic Aid Act (effective Dec. 27, 2020).

Question	PPP under CARES Act and Paycheck Protection Program Flexibility Act of 2020	Economic Aid Act 1st Draw	Economic Aid Act 2nd Draw
What factors should a borrower consider when certifying that the PPP loan request is necessary to support their ongoing operations?	<p>Borrowers should assess their economic need for a PPP loan under the standards established by the CARES Act, modified by the Economic Aid Act and the PPP regulations in effect at the time of the loan application. Borrowers are considered to make this certification in good faith and by taking into account current business activity and also other sources of liquidity currently available. Any borrower that, together with its affiliates, received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith. Borrowers with loans \$2 million or greater*will be subject to review by SBA for compliance with the program requirements and will need to complete the SBA’s “Loan Necessity Questionnaires,” Forms 3509 (for-profit borrowers) or 3510 (non-profit borrowers). These borrowers should continue to assess their economic need as described above. See Q31, Q37 and Q46 in the PPP FAQs for additional guidance.</p> <p>* Note there are inconsistencies within the SBA’s PPP FAQs regarding this \$2 million threshold – for example, Q39 indicates SBA will review all loans in <i>excess of \$2 million</i>, while Q53 refers to SBA reviewing all loans of <i>\$2 million or more</i>. Forms 3509 and 3510 mirror Q53. As the deemed good-faith certification applies to loans with an original principal amount of less than \$2 million, this would imply that loans of <i>\$2 million or more</i> as per Q53 and Forms 3509 and 3510 will be subject to review.</p>		

Question	PPP under CARES Act and Paycheck Protection Program Flexibility Act of 2020	Economic Aid Act 1st Draw	Economic Aid Act 2nd Draw
Are PPP loans or Economic Injury Disaster Loans (EIDL) obtained by not-for-profit entities subject to the Uniform Guidance single audit requirements?	<p>As of July 1, 2020, and per AICPA's Governmental Audit Quality Center Alert No. 404, PPP loans are not subject to the single audit requirements, but EIDL loans and certain other CARES Act funds are considered federal financial assistance and are subject to the Uniform Guidance single audit requirements.</p> <p>Please see resources provided by the Governmental Audit Quality Center including Alert No. 419 for additional information related to single audits.</p>		
Can CPAs act as agents for their clients for PPP loans?	<p>CPAs should consider the implications of acting as an agent for their clients. For more information, please see ethical implications to consider for COVID-19 PPP loan applications as well as impact of accepting PPP agent fees on independence.</p>		
What happens to PPP eligibility if there was an ownership change?	<p>Per SBA FAQ #38, as long as eligibility criteria are met, the business is eligible to apply for a PPP loan regardless of the change in ownership. The SBA has also issued a procedural notice noting when a change in ownership is considered to have occurred and the responsibilities of the borrower. See Oct. 5, 2020 Journal of Accountancy article for more information.</p>		
Are faith-based organizations eligible to receive SBA loans?	<p>Yes, subject to limitations. SBA issued FAQs regarding participation of faith-based organizations.</p>		
How do I determine whether related businesses are considered affiliates for the purpose of applying for the PPP?	<p>The general rules of affiliation rules can be found under 13 C.F.R. 121.301. There are 4 tests:</p> <ul style="list-style-type: none"> • based on ownership (control of 50% or more of voting equity) • based on stock options, convertible securities and agreements to merge (considered to have a present effect on the power to control a concern) • based on common management (one or more officers/directors/managing members or general partner controls the Board of Directors and/or management of another business) • based on identity of interests, including family members (individuals or firms that have identical business or economic interests) 		

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	In determining whether affiliation exists, the SBA may consider a business’/businesses’ circumstances as a whole even if no single factor constitutes affiliation (13 C.F.R. 121.301(f)(6))			
Are there any exceptions to the affiliation rules specifically related to the PPP?	Yes, affiliation is waved for: <ul style="list-style-type: none">businesses with fewer than 500 employees that are assigned a NAICS Code starting with 72 (hotels, bars, restaurants) provided each location uses its unique EINbusinesses operating as a franchise that are assigned a franchise identifier code by the SBA			Yes, affiliation is waved for: <ul style="list-style-type: none">businesses with fewer than 300 employees that are assigned a NAICS Code starting with 72 (hotels, bars, restaurants) provided each location uses its unique EINbusinesses operating as a franchise that are assigned a franchise identifier code by the SBA
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Are there any other specific exclusions in determining payroll costs?	<ul style="list-style-type: none">The compensation of an employee whose principal place of residence is outside of the U.S.The compensation of an individual employee in excess of an annual salary of \$100,000	<ul style="list-style-type: none">The compensation of an employee whose principal place of residence is outside of the U.S.The compensation of an individual employee in excess of an annual salary of \$100,000 annualized for the period during which the payments are madeIf the borrower received credits under the Families First Coronavirus Response Act (FFCRA) for sick and family leave wages, those costs are excluded.		

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	<ul style="list-style-type: none"> If the borrower received credits under the Families First Coronavirus Response Act (FFCRA) for sick and family leave wages, those costs are excluded. 	<ul style="list-style-type: none"> If the borrower received any Employee Retention Credits, wages used for those credits are excluded. 		
Does the \$100,000 cap apply to employee benefits?	The \$100,000 cap applies only to cash compensation not to non-cash compensation such as retirement plans or group health care.			
Are payments to independent contractors included in payroll costs?	Payroll costs do not include payments to independent contractors. Independent contractors have the opportunity to apply separately for PPP funding.			
Are part-time employees and/or temporary seasonal employees included in payroll costs?	All employees paid during the period of time selected are included in payroll costs and to determine head count for eligibility purposes.			
Is payroll included for an eligible borrower if they have a contract with a payroll provider or a Professional Employer Organization (PEO) to process payroll?	In FAQs released by the SBA , they recognize that the payroll for employees in this arrangement will not be reported on Form 941s for the borrower. The employees' gross salary and benefits would be included as part of payroll costs when calculating the loan amount. For documentation, the SBA suggests providing Schedule R from Form 941 (an allocation schedule for aggregate Form 941 filers) or a statement from the payroll provider or PEO.			
How do S Corporations	Businesses should accumulate payroll costs based on the general guidelines as noted above. Specifically, compensation of owners who receive reportable wages (i.e. W-2			

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determine payroll costs?	<p>wages) should be included as payroll costs up to the \$100,000 limit, annualized for the period during which the payments are made.</p> <p>Specifically, 2019 or 2020 Form 941 taxable Medicare wages & tips should be added for each quarter plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from taxable Medicare wages & tips should be used to calculate payroll costs.</p> <p>Employer health insurance contributions (portion of Form 1120-S page 1 line 18 attributable to health insurance, though note contributions for employees who own more than a 2% stake in the business or their family members are not included in this figure, as they are already included in gross wages), retirement contributions (Form 1120-S page 1 line 17) and employer state and local taxes assessed on employee compensation (from state quarterly wages reporting forms) should be included as payroll costs.</p> <p>Note: S corporation owner-employees are subject to different limitations. See FAQ “What are the caps on loan forgiveness for payroll costs available for owner-employees, self-employed individuals and general partners?”</p>			
How do partnerships and LLCs taxed as partnerships determine payroll costs?	<p>Businesses should accumulate and report payroll costs based on the general guidelines as noted above. Additionally, guidance issued states that payroll costs should also include the self-employment income of general active partners/members (subject to \$100,000 compensation cap). This is determined by adding the following:</p> <ul style="list-style-type: none"> • 2019 or 2020 Schedule K-1, line 14a – Net earnings from self-employment of individual U.S. based general partners, reduced by any Sec. 179 deduction, unreimbursed partnership expenses and depletion claimed on oil and gas properties multiplied by .9235 (adjusting for self-employment tax), up to \$100,000 per partner • 2019 or 2020 gross wages and tips paid to the employees whose principal place of residence is in the U.S. (calculated based on guidelines noted above) • 2019 or 2020 employer contributions for employee health insurance (portion of Form 1065 page 1 line 19 attributable to health insurance) • 2019 or 2020 employer contributions to employee retirement plans (Form 1065 page 1 line 18) • 2019 or 2020 employer state and local taxes assessed on employee compensation (from state quarterly wage reporting forms) <p>Although partners/members are not treated as employees of the partnership/LLC and may receive guaranteed payments and other self-employment income from the partnership/LLC, the SBA determined that partners/members are not permitted to obtain their own PPP funds based on their self-employment income from a partnership/LLC. Note: Partners are subject to different limitations. See FAQ “What are the caps on loan forgiveness for payroll costs available for owner-employees, self-employed individuals and general partners?”</p>			

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How do LLCs determine payroll costs and what category do they choose on the application?	LLCs should follow the instructions that apply to their tax filing situation. For example, a single-member LLC that is considered a disregarded entity should file an application as a self-employed person. If the LLC is electing to be taxed as a partnership, the guidance regarding partnerships/LLCs would apply in the calculation of payroll costs.			
Are health insurance premiums and retirement contributions added to payroll costs for SE individuals?	Based on guidance provided, the portion of health insurance premiums (including dental and vision) and retirement contributions attributable to employees will be added to payroll costs for individuals with employees. For self-employed individuals with no employees, the loan amount is determined based on net profit from Form 1040 Schedule C.			
Can a qualified entity apply for both the PPP and other SBA disaster loans?	Yes, borrowers may apply for the PPP and other SBA financial assistance, including disaster loans and Section 7(a) loans. However, you cannot use the proceeds from the PPP for the same purpose as your other SBA loan(s). Loan proceeds would need to cover payroll for a different period or other qualifying costs. This includes the up to \$10,000 grant available with the Section 7(b)(2) loans- Economic Injury Disaster Loans (EIDL).			
Does participation in the deferral of the employer portion of Social Security tax (6.2%) affect a business' eligibility to apply for a PPP loan?	No. Per the June 5, 2020 Paycheck Protection Program Flexibility Act of 2020 , PPP borrowers qualify for the deferral of the employers share of Social Security taxes (6.2%). 50% of the deferred tax is due by Dec. 31, 2021 and the remaining portion is due by Dec. 31, 2022.			
Can I use PPP funds to pay payroll expenses to employees when they are not currently able to work	The covered period starts when the loan is funded. For borrowers with a biweekly or more frequent payroll period, an alternative payroll covered period starting on the first day of	The covered period starts when the loan is funded. If the borrower is not able to operate or is operating at a limited capacity when the PPP loan proceeds are received, the borrower may choose to pay employees who are not able to work. This choice may be made to help the borrower maximize loan forgiveness as current guidance states that		

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(due to business being closed or for any other reason)?	its first pay period following loan disbursement can be used.	not more than 40% of the loan forgiveness amount may be attributable to non-payroll costs.		
When does the covered period begin to determine the amount of the forgiveness for the PPP loan?	The covered period begins on the date the lender makes the first disbursement of the loan. The lender must make the first disbursement of the loan no later than 10 calendar days from the date of the loan approval. Borrowers who received PPP loans prior to June 5, 2020 can elect an 8-week covered period or a 24-week covered period. Borrowers who received PPP 1 loans June 5, or later will have a 24-week covered period (though the latest date on which a covered period can end is Dec. 31, 2020).	The covered period begins on the date the lender makes the first disbursement of the loan. The lender must make the first disbursement of the loan no later than 10 calendar days from the date of the loan approval.		
Can a borrower choose a different covered period than 8-week or 24-week?	No. The covered period is either the 24-week period beginning on the loan disbursement date or if the borrower received the loan before June 5, 2020, the 8-week period beginning on the loan disbursement date. Note that an alternative payroll covered period can be used for borrowers with a biweekly (or more frequent) payroll schedule.	Yes. Borrower chooses a covered period between 8 and 24 weeks after the date of disbursement. Note that the covered period for the 1 st draw and the 2 nd draw cannot overlap.		
When can a borrower apply for loan forgiveness?	A borrower may submit a loan forgiveness application any time on or before the maturity date of the loan – including before the end of the covered period – if the borrower has used all of the loan proceeds for which the borrower is requesting forgiveness. Payments of principal and interest on the loan are not due until the lender determines the loan forgiveness amount. If a borrower			Same information as for the 1 st draw, with the exception being if the 2 nd draw is more than \$150,000, the forgiveness

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	does not submit the application for forgiveness within 10 months after the END of your covered period, payments on the loan will begin at that time. On Oct. 7, 2020, the SBA issued question No. 52 in their frequently asked questions reinforcing that the deferral period extension automatically applies to all loans, with no requirement from the SBA of a formal modification of the promissory note.			application for the 1 st draw loan must be submitted before or simultaneous with the loan forgiveness application for the 2 nd draw (even if no amount of forgiveness is requested for the 1 st draw loan).
Can a borrower apply for forgiveness before the end of the chosen covered period?	Yes. A borrower may submit application before the end of the covered period provided the borrower has used all of the loan proceeds and accounts for any salary reductions in excess of 25 percent for the full covered period.	N/A – Borrower chooses a covered period between 8 and 24 weeks after the date of disbursement.		
How are eligible payroll costs (including retirement benefits) determined for forgiveness purposes?	Borrowers are eligible for forgiveness for the payroll costs paid and incurred during the covered period or alternative payroll covered period. Payroll costs are considered paid on the day that paychecks are distributed or when an ACH credit transaction is originated. Payroll costs are considered incurred on the day that the employee's pay is earned. Payroll costs incurred but not paid during the last pay period of the selected period are eligible expenses if paid on or before the next regular payroll date. Payroll costs include all forms of cash compensation including tips, commissions, bonuses, and hazard pay.	<p>Borrowers are eligible for forgiveness for the payroll costs paid and incurred during the covered period. Payroll costs are considered paid on the day that paychecks are distributed or when an ACH credit transaction is originated. Payroll costs are considered incurred on the day that the employee's pay is earned. Payroll costs incurred but not paid during the last pay period of the selected period are eligible for forgiveness if paid on or before the next regular payroll date. Payroll costs include all forms of cash compensation including tips, commissions, bonuses, and hazard pay. Payroll costs should be determined based on the Interim Final Rule.</p> <p>Generally, employer contributions for employee retirement benefits that are paid or incurred during the covered period are eligible expenses. Employee contributions (deducted from pay or otherwise paid by the employee) are not eligible costs. Contributions for retirement benefits accelerated from period outside the covered period are not eligible forgiveness expenses.</p>		

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	Generally, employer contributions for employee retirement benefits that are paid or incurred during the covered period are eligible expenses. Employee contributions (deducted from pay or otherwise paid by the employee) are not eligible costs. Contributions for retirement benefits accelerated from period outside the covered period are not eligible forgiveness expenses.			
Is cash compensation paid to employees based on the gross amount before deductions for taxes, employee benefits payments (and similar payments)?	Borrowers should include <i>the gross amount</i> before deductions for taxes and employee benefits payments (and similar payments). See FAQ # 4 – from Oct. 13, 2020 Frequently Asked Questions on Loan Forgiveness and Jan. 6, 2021 IFR on the Paycheck Protection Program as Amended by Economic Aid Act . The employer federal payroll taxes (i.e. FICA and Medicare taxes) imposed on the gross payroll are not eligible payroll costs for the loan forgiveness calculation.			
Who is included as an owner-employee?	An Aug. 11, 2020 FAQ on forgiveness defined an owner-employee as an owner who is also an employee (including where the owner is the only employee). An Aug. 24, 2020 IFR provided that owner-employees with a less than 5% ownership stake in a C- or S- corporation are not subject to the owner-employee compensation rule. Note that the IFR does not address LLCs, self-	A Jan. 19, 2021 IFR noted that owner-employees with less than a 5% ownership stake in a C or S corporation are not subject to the owner-employee compensation rule for owner-compensation limits.		

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	employed borrowers and partnerships.			
What is the maximum amount of cash compensation for employees and owner-employees during the covered period?	The maximum cash compensation eligible for forgiveness for employees during the 24-week covered period is $24/52 \times 100,000 = \$46,154$. For the 24-week period, the owner compensation replacement for owner-employees, self-employed individuals or general partners is capped at $\$20,833 (2.5/12 \times 100,000)$.	The maximum cash compensation eligible for forgiveness for employees is \$100,000, as prorated for the period during which the payments are being made or the obligation to make the payments have occurred. For example, with a 10-week covered period, the maximum would be $10/52 \times 100,000 = \$19,231$. The owner compensation replacement for owner-employees, self-employed individuals or general partners is capped at 2.5 months of an owner-employee or self-employed individuals 2019 or 2020 compensation (up to a maximum of $\$20,833 - 2.5/12 \times 100,000$). The total compensation may not exceed \$100,000 on an annualized basis, as prorated for the period during which the payments are made or the obligations to make the payments is incurred.		
What amounts are included for health insurance and retirement for owner-employees?	For owner-employees of a C-corporation : Employer health insurance contributions and retirement contributions are eligible expenses. Retirement costs are capped at 2.5/12 of 2019 employer retirement contribution. These costs do not count toward the \$15,385/ \$20,833 cap per individual. For owner-employees of an S-corporation : Employer health insurance contributions are not included for greater than 2% owners (and their family members). Employer retirement contributions made on behalf of an owner-employee of an S corporation are included and do not count toward the cash compensation cap per individual.	<p>For owner-employees of a C-corporation: Employer health insurance contributions and retirement contributions are eligible expenses. Retirement costs are capped at 2.5/12 of 2019 or 2020 employer retirement contribution. These payments do not count toward the \$100,000 annualized pro rata cap per individual.</p> <p>For owner-employees of an S-corporation: Employer health insurance contributions are not included for owners (and their family members) of at least a 2% stake of an S-corporation. Employer retirement contributions made on behalf of an owner-employee of an S corporation are included and do not count toward the cash compensation cap per individual.</p> <p>For self-employed individuals and general partners: Employer health insurance contributions and employer retirement contributions made on behalf of self-employed individuals or general partners are not included as eligible expenses as they are included in the self-employment income figures used to determine their loan amount.</p> <p>See Jan. 19, 2021 IFR on Loan Forgiveness Requirements and FAQ # 8 – from Oct. 13, 2020 Frequently Asked Questions on Loan Forgiveness.</p>		

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	For self-employed individuals and general partners : Employer health insurance contributions and employer retirement contributions made on behalf of self-employed individuals or general partners are not included as eligible expenses (they are included in the self-employment income figures to determine their loan amount). See FAQ # 8 – from Oct. 13, 2020 Frequently Asked Questions on Loan Forgiveness .			
Can you increase pay for employees during the forgiveness period (for example, hazard pay, bonuses or other forms of incentive pay)?	Yes, salary increases in the form of bonuses are eligible for forgiveness to the extent that the total compensation to an employee does not exceed \$100,000 on an annualized basis (\$46,154 for the 24-week period or \$15,385 for the 8- week period). Owner compensation is capped at the lower of \$20,833 for the 24-week period or the 2.5 month equivalent of 2019 compensation for the 24-week period (capped at the lower of 8/52 of 2019 compensation or \$15,385 for an 8-week period).	Yes, salary increases in the form of bonuses are eligible for forgiveness if the total compensation to an employee does not exceed \$100,000 as prorated for the period during which the payments are made or the obligation to make the payments is incurred. Additional caps on owner compensation apply as outlined above.		
Do qualified sick and family leave wages which are eligible for a tax credit under the FFCRA count	For businesses that take these credits, the wages will be excluded from the determination of payroll costs.			

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toward payroll costs?				
Do nonpayroll costs need to be paid or incurred during the covered period to be eligible for forgiveness?	Any eligible nonpayroll cost must be paid during the covered period or incurred during the covered period and paid on or before the next regular billing date, even if the billing date is after the covered period.			
Can rent or other eligible nonpayroll costs be prepaid?	Guidance specifically addresses that prepayments of mortgage payments are not allowed. As other nonpayroll costs must simply be paid or incurred during the covered period, this appears to imply that prepayments of other nonpayroll costs are allowed.			
Are payments to related parties for rent included as eligible nonpayroll costs?	Yes, but the amount is limited to the amount of the mortgage interest owed on the property during the covered period that is attributable to the space being rented by the business. Additionally, the lease and the mortgage must have been entered into prior to Feb. 15, 2020. The borrower is required to provide documentation to the lender to substantiate the amount of mortgage interest. Any ownership in common between the business and the property owner is a related party for these purposes. There is no guidance addressing whether owner attribution rules apply.			
What is included in utilities for eligible expenses?	The CARES Act defines utilities in Sec. 1106(a)(5) as electricity, gas, water, transportation, telephone or internet access for service which began prior to Feb. 15, 2020. The IFR issued April 14, "Interim-Final-Rule-Additional-Eligibility-Criteria-and-Requirements-for-Certain-Pledges-of Loans" specifies gas used when driving a business vehicle. Aug. 11, 2020 FAQ 6 – Loan Forgiveness Nonpayroll Costs explains that "a service for the distribution of transportation refers to transportation utility fees assessed by state and local governments." Other common utilities such as garbage collection or security monitoring may also be classified as a utility, but a borrower should confirm with the lending institution.			
Are payments to related parties other than rent eligible expenses?	Mortgage interest payments to a related party are not eligible for forgiveness. Other payments to related parties for expenses other than rent or interest are not addressed in the guidance provided. There is no guidance addressing whether owner attribution rules apply.			
How is the salary reduction calculated for	If the borrower has reduced an employee's rate of pay (annual salary or hourly wage) (made less than	A reduction in an employee's salary or wages in excess of 25 percent will generally result in a reduction in the loan forgiveness amount, unless an exception applies. For each employee in 2020 and 2021 who was not paid more than the		

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forgiveness purposes?	<p>\$100,000 annualized during any pay period in 2019) in excess of 25%, the borrower must account for the salary reduction for the full 8-week or 24-week covered period. The reduction in salary/hourly wages must be eliminated by Dec. 31, 2020. A borrower with a loan of less than \$50,000 (except those who with affiliates borrowed \$2 million or more) is exempt from determining salary reduction calculations.</p>	<p>annualized amount of \$100,000 in any pay period in 2019, forgiveness of the loan must be reduced by the total dollar amount of the salary or wage reduction in excess of 25% of base salary or wages of the employee during the most recent full quarter during which the employee was employed before the covered period (reference period) unless an exception applies. The salary/wage reduction applies ONLY to the portion of the decline in employee salary and wages that is not attributable to the FTE reduction. The reduction in salary/hourly wages must be eliminated by Dec. 31, 2020, or for a PPP loan made on or after Dec. 27, 2020, not later than the last day of the loan's covered period. Note that a borrower with a loan of \$50,000 or less (except those who with affiliates borrowed \$2 million or more) is exempt from determining salary reduction calculations.</p>		
How is the FTE reduction calculated for forgiveness purposes?	<p>The instructions for the Form 3508 forgiveness application indicate that the borrower includes the number of FTEs at the end of the covered period OR the date the application is submitted. The SBA has provided information to lenders as follows: "When a borrower submits the completed application and a lender has processed the borrower's forgiveness application, the borrower is no longer bound to the FTE restrictions. The covered period ends when the borrower successfully applies for forgiveness." Note that a borrower with a loan of \$50,000 or less (except for borrowers who together with affiliates borrowed \$2 million or more) is exempt from</p>	<p>In general, a reduction in FTE employees during the covered period compared to the reference period (2/15/19 – 6/30/19 or 1/1/20 – 2/29/20, seasonal employers can additionally use a consecutive 12-week period between 2/15/19 and 2/15/20) reduces the loan forgiveness amount by the same percentage as the percentage reduction in FTE employees. To eliminate the FTE reduction, the reduction in FTEs must be cured by Dec. 31, 2020 or for a PPP loan made on or after Dec. 27, 2020, not later than the last day of the loan's covered period. Note that a borrower with a loan of \$50,000 or less (except for borrowers who together with affiliates borrowed \$2 million or more) is exempt from determining FTE reduction calculations.</p>		

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	determining FTE reduction calculations.			
When determining the potential reduction of loan forgiveness due to workforce reductions, what method is used to determine employees?	<p>The CARES Act uses the standard of “full-time equivalent employees” to determine whether loan forgiveness must be reduced in the measurement period. The loan forgiveness application provides for a calculation of average full-time equivalency which is calculated as the average number of hours paid per week, divided by 40 and rounded to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method is provided that assigns a 1.0 for employees who work 40 hours or more per week and .5 to employees who work fewer hours. Guidance is not provided for calculating FTEs if hours of work are not tracked.</p>			
Under what circumstances will a reduction in FTE not result in a decrease in loan forgiveness?	<p>An <i>FTE reduction exception</i> (meaning that a reduction of FTE in these circumstances does not reduce loan forgiveness) is available for any of the following on an employee-by-employee basis:</p> <ul style="list-style-type: none"> • Borrower makes a good-faith, written offer to rehire or restore the reduced hours of an employee during the covered period or the alternative payroll covered period, the offer was rejected and there is documentation of the offer and rejection. • Employee was fired for cause • Employee voluntarily resigned • Employee requested and received a reduction of their hours • Borrower in good faith can document the inability to rehire individuals who were employees on Feb.15, 2020 and hire similarly qualified employees for unfilled positions on or before Dec. 31, 2020 or the date of the application for forgiveness. <p>An <i>FTE reduction safe harbor</i> (meaning that any/all reduction in headcount does not reduce loan forgiveness) is available for the following circumstances:</p> <ul style="list-style-type: none"> ○ <i>Operating restrictions:</i> Borrower is unable to operate between Feb. 15 and end of covered period at the same level of business activity due to compliance with requirements established or guidance 		<p>An <i>FTE reduction exception</i> (meaning that a reduction of FTE in these circumstances does not reduce loan forgiveness) is available for any of the following on an employee-by-employee basis:</p> <ul style="list-style-type: none"> • Borrower makes a good-faith, written offer to rehire or restore the reduced hours of an employee during the covered period and the offer was rejected and there is documentation of the offer and rejection. • Employee was fired for cause • Employee voluntarily resigned • Employee requested and received a reduction of their hours • Borrower in good faith can document the inability to rehire individuals who were employees on Feb.15, 2020 and hire similarly qualified employees for unfilled positions on or before Dec. 31, 2020, or for loans received after Dec.27, 2020, the last date of the covered period. • <p>An <i>FTE reduction safe harbor</i> is available for the following circumstances:</p> <ul style="list-style-type: none"> ○ <i>Operating restrictions:</i> Borrower is unable to operate between Feb. 15, 2020 and end of covered period at the same level of business activity due to compliance with requirements established or guidance issued March 1 – Dec. 31, 2020 (or for loans received on or after Dec. 27, 2020, requirements established or guidance issued not later than the end of 	

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	<p>issued March 1 – Dec. 31 by the HHS Secretary, the CDC Director, or OSHA related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.</p> <ul style="list-style-type: none"> Dec. 31/application date “restoration”: Borrower reduced FTE employee levels between Feb. 15 and Apr. 26, 2020; and then restored its FTE employee levels by not later than Dec. 31, 2020 or the date of the forgiveness application to FTE levels in the pay period that included Feb. 15. Loan is \$50,000 or less. 		<p>the covered period) related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.</p> <ul style="list-style-type: none"> Dec. 31/covered period end date “restoration”: Borrower reduced FTE employee levels between Feb. 15 and Apr. 26, 2020; and then restored its FTE employee levels by not later than Dec. 31, 2020 or for loans made on or after Dec. 27, 2020, the last day of the loan’s covered period, to FTE levels in the pay period that included Feb. 15. Loan is \$50,000 or less. 	
What are the requirements necessary to use the FTE reduction exception operating restrictions?	<p>Borrowers using this exception are required to certify that they have documented in good faith that their reduction in business activity during the covered period stems directly or indirectly from compliance with sanitation, social distancing or any other worker or customer safety requirement related to COVID-19. Please see Revisions to Loan Forgiveness Interim Final Rule and SBA Loan Review Procedures Interim Final Rule for full description. Documentation is required and must include copies of applicable COVID-19 requirements or guidance for each business location and relevant borrower financial records.</p>			
How does the timing of loan forgiveness affect shareholder/partner tax basis?	<p>The forgiveness will be treated as tax-exempt income for the purposes of the stock basis or adjusted basis of a partner’s interest if the borrower is a partnership increase for PPP recipients. There could be timing issues that arise if the PPP loan is not forgiven or deemed forgiven in the same year as the expenses were incurred. More guidance is needed with regard to the determination of when the PPP loan is deemed forgiven.</p>			
Is the forgiveness of the loan taxable income?	<p>No, the forgiveness of the loan does not constitute federal taxable income. It is considered to be tax-exempt income for federal tax purposes. States are providing guidance on state taxability that will be included in the AICPA state tax guidance chart.</p>			
What documentation is required to be submitted to the lender for self-employed individuals to support loan forgiveness?	<p>The following documentation is required:</p> <ul style="list-style-type: none"> Certification that the documentation provided is true and correct and the amount for which forgiveness is required was used to retain employees, and make interest, rent and utility payments If the self-employed individual has employees, Form 941 and state quarterly tax reporting 		<p>The following documentation is required:</p> <ul style="list-style-type: none"> Certification that the documentation provided is true and correct and the amount for which forgiveness is required was used to retain employees, and make interest, rent and utility payments 	

Question	1st draw borrowers whose loans have been forgiven	1st draw borrowers whose loans have not been forgiven	Economic Aid Act: 1st draw	Economic Aid Act: 2nd draw
	forms or equivalent payroll processor records that correspond to the covered period <ul style="list-style-type: none"> Evidence of business rent, mortgage interest payments or utility payments for loan proceeds used for these purposes 2019 Form 1040 Schedule C 		<ul style="list-style-type: none"> If the self-employed individual has employees, Form 941 and state quarterly tax reporting forms or equivalent payroll processor records that correspond to the covered period Evidence of business rent, mortgage interest payments or utility payments for loan proceeds used for these purposes 2019 or 2020 Form 1040 Schedule C 	
How should the forgiveness portion be recorded for financial statement purposes?	The AICPA issued guidance on accounting for PPP loans for nongovernmental borrowers. See article in the <i>Journal of Accountancy</i> to learn more.			

Reviewed February 4, 2021