

PPP Loan Forgiveness

A Roadmap



JOHN F. CRAVEN

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About John F. Craven CPA LLC

We are a boutique CPA firm that focuses on media, entertainment and technology industries. We serve startup interactive and non-media businesses and established businesses. Our services include accounting, income tax representation, preparation and planning, and profitability advisory consulting services.

Jack Craven, CPA, CGMA and MBA is the founder of the firm. Jack started his career at Ernst & Young where he served clients for 14 years. Prior to starting his CPA practice, Jack was CFO of a number of major media companies including American Media, Time/Warner Retail Marketing and Jobson Publishing. Jack is currently chairman of Bevnet.com, Inc, the leading internet site covering the food and beverage industries. He currently, serves on the board of the Greater New York Chamber of Commerce and previously served on the Board of Directors of the NY State Society of CPAs and the Garden City Chamber of Commerce.

We want to be Your Trusted Advisor. Our mission is to build long-term relationships with clients that help them become more profitable and increase shareholder value. AS a CPA firm, we maintain the high ethical standards of the American Institute of Certified Public Accountants

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Forgiveness Depends on

◆ *How the PPP \$\$ were
spent*



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What Costs are Eligible

- ◆ Payroll costs
- ◆ Interest on Mortgages
- ◆ Rent
- ◆ Utilities

The devil is in the details



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8 Weeks or 24 Weeks

SBA Assigns a Loan Number Upon Approval

---After June 5 must use 24 week period

---Before June 5 can be 8 week or 24 weeks

Decision made at time of filing for forgiveness

□



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8 Weeks Vs 24 Weeks

8 Weeks

Easier to be fully staffed for 8 weeks

Use rules in effect at filing

Potential issues with debt covenants

Can switch to 24 weeks

24 Weeks

Most of the loan money can be spent on payroll

Seasonal businesses –bars and restaurants

Unable to find workers in 8 weeks



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Full Forgiveness

- ◊ ***60% (or more) of the loan must be spent on “payroll” costs***
- ◊ ***40% can be spent on allowable non payroll costs***



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What are “Payroll” costs?

- ◆ Includes **GROSS** pay (wages, vacation, severance, etc.)

Plus

- ◆ **Health insurance**
- ◆ **Retirement contributions**
- ◆ **State mandated employer taxes (unemployment insurance, etc.)**

Many rules around maximum pay rate and owners’ compensation



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Maximum Payroll Costs Allowed

	Non Owner Employee	Independent Contractor	C Corp Owners	S Corp Owners
8 weeks	\$15,385	\$15,385	\$15,385	\$15,385
24 weeks	\$46,154	\$20,833	\$20,833	\$20,833
Health insurance	Yes	No	Yes	Included in compensation above
Retirement plan for Owners	na	\$0	2.5 months worth based on 2019	2.5 months worth based on 2019

Other Eligible Costs?

- ◊ ***Besides payroll the following costs are eligible***
- ◊ **Mortgage interest**
- ◊ **Rent**
- ◊ **Utilities (electricity, gas, water, TRANSPORTATION COSTS. INTERNET COSTS)**

The above are subject to the 60/40 rules. 60% payroll, 40% other costs.



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SBA Forgiveness – Form 3508 or 3508EZ

- ◊ ***What is the difference***
 - ◊ ***3508EZ is the “short” form***
 - ◊ ***3508 is used when there are reductions in number of employees (FTE) or reduction in salary***



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Do You Qualify to Use Form 3508EZ

Answer Yes to 1, 2 or 3

#1

- **Self-employed, independent contractor, or sole-proprietor**
- **And no employees at the time of the PPP Loan Application and**
- **And no employee salaries in the computation of average monthly payroll in the Borrower Application**

#2

Did NOT reduce effective pay rates by more than 25% during the applicable Covered Period as compared to 1/1/20 to 3/31/20 (Applies to only employees with an annualized pay rate of \$100,000 or less in 2019)

AND did NOT reduce number of employees or average paid hours between January 1, 2020 and the end of your Covered Period (other than any reductions that arose from an inability to rehire individuals employees, if you were unable to hire qualified employees on or before December 31, 2020, and reductions in an employee's hours that you offered to restore and were refused)?

#3

Did NOT reduce effective pay rates by more than 25% during the applicable Covered Period as compared to 1/1/20 to 3/31/20 (Applies to only employees with an annualized pay rate of \$100,000 or less in 2019)

AND unable to operate during the applicable Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements HHS, CDC or OSHA related to COVID-



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Paycheck Protection Program
PPP Loan Forgiveness Application Form 3508EZ

OMB Control No. 3245-0407
Expiration date: 10/31/2020

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		() -	
		Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____ Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

☐ Weekly ☐ Biweekly (every other week) ☐ Twice a month ☐ Monthly ☐ Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here: ☐

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs: _____

Line 2. Business Mortgage Interest Payments: _____

Line 3. Business Rent or Lease Payments: _____

Line 4. Business Utility Payments: _____

Potential Forgiveness Amounts

Line 5. Add the amounts on lines 1, 2, 3, and 4: _____

Line 6. PPP Loan Amount: _____

Line 7. Payroll Cost 60% Requirement (divide Line 1 by 0.60): _____

Forgiveness Amount

Line 8. Forgiveness Amount (enter the smallest of Lines 5, 6, and 7): _____

3508 EZ
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Paycheck Protection Program
PPP Loan Forgiveness Application Form 3508EZ

Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The Authorized Representative of the Borrower certifies to all of the below by **initialing** next to each one.

The dollar amount for which forgiveness is requested:

- was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
- includes payroll costs equal to at least 60% of the forgiveness amount;
- if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
- if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.

I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.

The Borrower did not reduce salaries or hourly wages by more than 25 percent for any employee during the Covered Period or Alternative Payroll Covered Period compared to the period between January 1, 2020 and March 31, 2020. For purpose of this certification, the term "employee" includes only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000.

The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.

I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payment and business utility payments.

The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 18 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than three years and/or a fine of not more than \$1,000,000.

The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share this tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.

I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.

In addition, the Authorized Representative of the Borrower must certify by **initialing at least ONE** of the following two items:

The Borrower 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 (other than any reductions that arose from an inability to rehire individuals who were employees on February 15, 2020, if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020, and reductions in an employee's hours that a borrower offered to restore and were refused).

The Borrower was 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.

Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

Signature of Authorized Representative of Borrower

Date

Print Name
Form 3508EZ (06/20)
2

Title

Form
3508EZ

Page 2

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SBA Form 3508



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Paycheck Protection Program
Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		() -	
		Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____ Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

☐ Weekly ☐ Biweekly (every other week) ☐ Twice a month ☐ Monthly ☐ Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here: ☐

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10): _____

Line 2. Business Mortgage Interest Payments: _____

Line 3. Business Rent or Lease Payments: _____

Line 4. Business Utility Payments: _____

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3): _____

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5: _____

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13): _____

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7): _____

Line 9. PPP Loan Amount: _____

Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60): _____

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10): _____

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:
If the average annual salary or hourly wage for each employee listed on the PPP
Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll
Covered Period was at least 75% of such employee's average annual salary or hourly
wage between January 1, 2020 and March 31, 2020, check here ☐ and enter 0 on line 3.

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2: _____

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2: _____

Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

Line 6. Total amount paid or incurred by Borrower for employer contributions for employee health insurance: _____

Line 7. Total amount paid or incurred by Borrower for employer contributions to employee retirement plans: _____

Line 8. Total amount paid or incurred by Borrower for employer state and local taxes assessed on employee
compensation: _____

Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners:
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is
more than one individual included, attach a separate table that lists the names of and
payments to each.

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): _____

Full-Time Equivalency (FTE) Reduction Calculation

If you satisfy any of the following three criteria, check the appropriate box, skip lines 11 and 12, and enter 1.0 on line 13; otherwise,
complete lines 11, 12, and 13:

No reduction in employees or average paid hours: If you have not reduced the number of employees or the average paid hours of
your employees between January 1, 2020 and the end of the Covered Period, check here ☐.

FTE Reduction Safe Harbor 1: If 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 for sanitation,
social distancing, or any other worker or customer safety requirement related to COVID-19, check here ☐.

FTE Reduction Safe Harbor 2: If you satisfy FTE Reduction Safe Harbor 2 (see PPP Schedule A Worksheet), check here ☐.

Line 11. Average FTE during the Borrower's chosen reference period: _____

Line 12. Total Average FTE (add lines 2 and 5): _____

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if any of the above criteria are met: _____



PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:
If the average annual salary or hourly wage for each employee listed on the PPP
Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll
Covered Period was at least 75% of such employee's average annual salary or hourly
wage between January 1, 2020 and March 31, 2020, check here ☐ and enter 0 on line 3. _____

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2: _____

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2: _____

Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

Line 6. Total amount paid or incurred by Borrower for employer contributions for employee health insurance: _____

Line 7. Total amount paid or incurred by Borrower for employer contributions to employee retirement plans: _____

Line 8. Total amount paid or incurred by Borrower for employer state and local taxes assessed on employee
compensation: _____

Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners:
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is
more than one individual included, attach a separate table that lists the names of and
payments to each. _____

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): _____

Full-Time Equivalency (FTE) Reduction Calculation

If you satisfy **any** of the following three criteria, check the appropriate box, skip lines 11 and 12, and enter **1.0** on line 13; otherwise,
complete lines 11, 12, and 13:

No reduction in employees or average paid hours: If you have not reduced the number of employees or the average paid hours of
your employees between January 1, 2020 and the end of the Covered Period, check here ☐.

FTE Reduction Safe Harbor 1: If 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 for sanitation,
social distancing, or any other worker or customer safety requirement related to COVID-19, check here ☐.

FTE Reduction Safe Harbor 2: If you satisfy FTE Reduction Safe Harbor 2 (see PPP Schedule A Worksheet), check here ☐.

Line 11. Average FTE during the Borrower's chosen reference period: _____

Line 12. Total Average FTE (add lines 2 and 5): _____

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if any of the above criteria are met: _____



PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

Attach additional tables if additional rows are needed.

FTE Reduction Safe Harbor 2:

- Step 1. Enter the borrower's total average FTE between February 15, 2020 and April 26, 2020. Follow the same method that was used to calculate Average FTE in the PPP Schedule A Worksheet Tables. Sum across all employees and enter: _____.
- Step 2. Enter the borrower's total FTE in the Borrower's pay period inclusive of February 15, 2020. Follow the same method that was used in step 1: _____.
- Step 3. If the entry for step 2 is greater than step 1, proceed to step 4. Otherwise, FTE Reduction Safe Harbor 2 is not applicable and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.
- Step 4. Enter the borrower's total FTE as of the earlier of December 31, 2020, and the date this application is submitted: _____.
- Step 5. If the entry for step 4 is greater than or equal to step 2, enter 1.0 on line 13 of PPP Schedule A; the FTE Reduction Safe Harbor 2 has been satisfied. Otherwise, FTE Reduction Safe Harbor 2 does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.

The background of the slide is a 3D graphic consisting of numerous vertical blue bars of varying heights. Each bar has a white number on top, creating a dense, abstract pattern of numbers. The numbers are in various sizes and orientations, giving a sense of depth and movement.

Copy of CARES Act PPP Loan Expense Tracker
Forgiveness Calculator 2020version 1.9 08-24-20.xlsx

Other Important Considerations

- ◆ Strongly suggest use software to help comply

- ◆ Reduction in forgiveness

 - Staff or pay reduction

 - Safe Harbor

Sole Proprietor with no payroll

Owner Compensation Requirement

Based upon 2019 Schedule C



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Other Important Considerations -- *Continued*

- ◆ **Tax impacts**

- ◆ **PPP forgiveness not includable in taxable income**
- ◆ **--Expenses paid with PPP money not deductible**
- ◆ **--Effectively the PPP grant forgiven is taxable**



PPP Example 1

PPP Loan is
\$100K

Spent \$70K (70% of the PPP Loan on
Payroll

Non payroll costs are \$20K

Is payroll 60%
of PPP Loan Yes \$70,000

Non Payroll costs \$20,000

Forgive
ness \$90,000

Not
forgiven \$10,000

Even though the 60% criterial was reached, the entire loan was not spent

PPP Example 1

PPP Loan is \$100K

Spent \$70K (70% of the PPP Loan on Payroll)

Non payroll costs are \$30K

FTE Employees during =8 week period

15

FTE Employees during elected period

20

Because of FTE reduction loan forgiveness is reduced by 25%

" $15/20 \times 100K = \$70K$ of loan forgiveness"

Is payroll 60% of PPP Loan Yes	\$70,000
--------------------------------	----------

Non Payroll costs	<u>\$30,000</u>
-------------------	-----------------

Loan amount	<u>\$100,000</u>
-------------	------------------

Forgiven	<u>\$70,000</u>
----------	-----------------

Not forgiven	<u>\$30,000</u>
--------------	-----------------

Even though the 60% criterial was reached, the entire loan was not spent

the FTE decrease reduced forgiveness to \$70K