

THE NEW & IMPROVED
PAYCHECK PROTECTION
PROGRAM: HOW TO
DETERMINE ELIGIBILITY
AND APPLY

WITH NANCY MCCLELLAND, CPA
THE DANCING ACCOUNTANT



THE DANCING ACCOUNTANT



Celebrating 20 years of small business accounting in Logan Square



CPA with a Masters in Accounting & Financial Management



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AGENDA

Paycheck Protection Program Summary

Current Program Overview

Eligibility

How to Apply

Where to Apply

Forgiveness Basics

Resources & Questions

PAYCHECK PROTECTION PROGRAM: THE BASICS

- Forgivable loan – essentially a tax-free grant
- No personal guarantees or collateral are required
- Intended to primarily cover payroll (at least 60%) but also some overhead costs
- Apply through bank or other financial institution
- Do not apply directly through the SBA
- Does not need to be “your” bank
- Many options including community banks, FinTech lenders & third-parties – ask your accountant or payroll provider

PAYCHECK PROTECTION PROGRAM: THE CHALLENGES

- Initial round began 4/3/20; ran out of funding in 13 days
- Businesses with more resources (in-house CPAs, existing relationships with bankers) initially received most of the money
- Program was replenished 4/26/20 and ran through 8/8/20
- Missing or conflicting application and forgiveness guidance
- Concern about significance of certification that "current economic uncertainty makes this loan request necessary" for the business to keep operating
- Fear of being left with a loan that cannot be repaid

PAYCHECK PROTECTION PROGRAM: THE CURRENT STATUS

- Series of guidance releases from the SBA & IRS
- New legislation from Congress in June & December 2020
- Rules are much clearer
- Program much more beneficial for small businesses
- New round of PPP opened 1/11/21 - more deliberate, targeted approach for both lenders and recipients
- Deadline to apply is 3/31/21 or until funding runs out if sooner
- Appears that the program is sufficiently funded through 3/31
- **Not too late to apply for PPP1**
- Process is taking approximately 1-4 weeks from application to funding

FINANCIAL RELIEF FOR SMALL BUSINESSES: OPTIONS

1. If you have not applied for PPP1, this should be first on the list
2. If you did apply for PPP1, determine if your business qualifies for PPP2 and if so, apply
3. Look into the Employee Retention Credit (ERC, aka ERTC)
 - It used to be prohibited to take both ERC and PPP, but the newest legislation changed all that
 - Now, you can take both ERC and PPP, but not for the same “payroll dollars”; you can even go back and claim it retroactively for 2020 on amended payroll tax returns
 - The rules for retroactively claiming this for 2020 are different than the rules for 2021
 - The interaction between these two programs is complex, so it’s best to work with a trusted advisor
4. Research state, local, and private grants for your specific location and industry, as well as grants from big companies trying to position themselves as small-business-friendly
5. Consider other SBA Loan programs
6. Reach out to your local chamber of commerce and representative’s office for suggestions

This webinar will focus on the current round of PPP funding – for both PPP1 & PPP2 borrowers

CURRENT PROGRAM: ELIGIBILITY

- Must have been in operation on February 15, 2020 (special rules for seasonal businesses)
- Must have payroll or self-employment income for partnerships/sole proprietor – “payroll” means anything on which you paid SS/MC taxes
- Must certify the business needs the money: *“the uncertainty of current economic conditions makes necessary the loan request to support the ongoing obligations”*
- For PPP2 – Must show 25% drop in revenue 2020 vs 2019, or in any one quarter of 2020 vs. same quarter 2019

CURRENT PROGRAM: INELIGIBLE BORROWERS

- **Not in operation on February 15, 2020**
- **Applicant's business has permanently closed**
- Owners in bankruptcy
- Illegal activities
- Household employers
- 20%+ owner currently incarcerated for a felony or ever convicted of fraud felony
- Delinquent or defaulted on an SBA loan
- Participant in Shuttered Venue Operator Grant program
- Foreign companies, SEC Filers, Lobbyists, etc.
- Under no circumstances may PPP funds be used to support non-U.S. workers or operations

CURRENT PROGRAM: AMOUNT OF LOAN



PPP1 - 2.5 months of 2019 or 2020 "payroll"



PPP2 – second draw is also 2.5 months of 2019 or past 12-mos "payroll" -- or 3.5 months IF business is in the hospitality industry (NAICS 72)

KEY DIFFERENCES BETWEEN FIRST DRAW AND SECOND DRAW PPP LOANS

	FIRST DRAW	SECOND DRAW
Eligibility – Maximum Number of Employees (subject to exceptions outlined below)	Up to 500 employees or alternative SBA size standard for number of employees based upon NAICS code	Up to 300 Employees
Revenue Reduction Requirement	None	At least 25% reduction in revenue, calculated by comparing the applicant's quarterly gross receipts for one quarter in 2020 with the applicant's gross receipts for the corresponding quarter of 2019. If the applicant was in operation in all four quarters of 2019, a reduction in annual receipts of 25% or greater in 2020 compared to 2019.
Maximum Loan Amount	\$10 Million	\$2 Million
Calculation of Loan Amount – Payroll Period(s)	Either the 2019 or 2020 calendar year	Either (i) the 12-month period prior to when the loan was made or (ii) the calendar year 2019

CURRENT PROGRAM: WHAT COUNTS AS PAYROLL

- “Payroll” for the purposes of the PPP includes anything on which you pay “Payroll Taxes” aka “Social Security & Medicare Taxes” aka “Self-Employment Taxes”
- This means it may be different depending on the entity
 - Gross wages/salary from W-2s (these count for all types of entities, whether paid to self or staff)
 - Health/Dental/Vision Insurance, Life Insurance, Disability Insurance, Workers Comp **paid by employer**
 - Retirement Contributions **paid by employer**
 - State/local taxes on compensation (unemployment taxes paid by employer)
 - Owner compensation replacement (Schedule C, Schedule F, or Partnership)

CURRENT PROGRAM: WHAT DOES NOT COUNT AS PAYROLL

NOT INCLUDED:

- Federal payroll taxes
- Any annualized wage/salary compensation over \$100k (across all businesses in which they have ownership)
- Wages used for Employee Retention Credit (ERC)
- Distributions
- For more details, see the Clara CFO Group YouTube video – <https://www.youtube.com/watch?v=Hn6VHLGiKyA>

HOW TO APPLY: REQUIREMENTS FOR 1ST TIME BORROWERS



- Business established on or before February 15th, 2020
- Fewer than 500 employees
- If no employees, must have positive net income (2019 or 2020)
- Remember: at least 60% of the PPP needs to be spent on payroll costs



HOW TO APPLY:
REQUIREMENTS
FOR 2ND TIME
BORROWERS

Certify that you have used or will use 100% of the first draw PPP funds on eligible expenses on or before expected date of the second draw loan disbursement.

No more than 300 employees

Show a 25% reduction in year-over-year same quarterly or annual revenue from 2019 -> 2020

HOW TO APPLY: DOCUMENTS NEEDED

ALL APPLICANTS:

- Front and back of Driver's License
- Voided/Canceled Check or letter from bank showing company name, bank routing & account numbers
- Bank Statement showing company name that includes the date 2/15/20 (as proof of business existence)
- If you applied for PPP first-time around, SBA loan number (this has been hard to obtain from some banks)



HOW TO APPLY: DOCUMENTS NEEDED

PROFIT AND LOSS January - December 2020

	JAN - MAR, 2020			APR - JUN, 2020			JUL - SEP, 2020			OCT - DEC, 2020			TOTAL		
	CURRENT	JAN - MAR, 2019 (PY)	% CHANGE	CURRENT	APR - JUN, 2019 (PY)	% CHANGE	CURRENT	JUL - SEP, 2019 (PY)	% CHANGE	CURRENT	OCT - DEC, 2019 (PY)	% CHANGE	CURRENT	JAN - DEC 2019 (PY)	% CHANGE
Income	\$54,168.21	\$44,595.83	21.46 %	\$2,183.60	\$66,094.82	-96.73 %	\$37,189.58	\$69,817.72	-46.73 %	\$29,772.49	\$70,495.37	-57.77 %	\$123,293.88	\$251,003.74	-50.88 %
Cost of Goods Sold	\$44,166.60	\$36,672.83	20.43 %	\$5,474.65	\$51,646.50	-89.40 %	\$26,961.24	\$55,104.90	-51.04 %	\$34,940.75	\$62,772.48	-44.34 %	\$111,563.24	\$206,196.71	-45.89 %
GROSS PROFIT	\$10,001.61	\$7,923.00	26.24 %	\$-3,311.05	\$14,448.32	-122.92 %	\$10,208.34	\$14,712.82	-30.62 %	\$-5,168.26	\$7,722.89	-166.92 %	\$11,730.64	\$44,807.03	-73.82 %
Expenses	\$7,045.63	\$4,012.08	75.61 %	\$4,563.51	\$8,239.77	-44.74 %	\$7,800.69	\$7,122.75	9.52 %	\$8,215.82	\$9,772.35	-15.93 %	\$27,615.45	\$29,146.95	-5.25 %
NET OPERATING INCOME	\$2,955.98	\$3,910.92	-24.42 %	\$-7,864.56	\$6,208.55	-226.67 %	\$2,407.65	\$7,590.07	-68.28 %	\$-13,383.88	\$-2,049.46	-553.04 %	\$-15,884.81	\$15,660.08	-201.44 %
Other Income	\$201.26	\$-0.01	2,012,700.00 %	\$2,500.00	\$8.93	27,895.52 %	\$25,041.00	\$0.50	5,008,100.00 %	\$22.00	\$255.87	-91.40 %	\$27,764.26	\$265.09	10,373.52 %
Other Expenses	\$284.47	\$1,138.39	-75.01 %	\$292.27	\$907.76	-67.90 %	\$325.83	\$684.50	-52.40 %	\$141.86	\$2,360.77	-93.99 %	\$1,044.43	\$5,091.42	-79.49 %
NET OTHER INCOME	\$-83.21	\$-1,138.40	92.69 %	\$2,207.73	\$-898.83	345.62 %	\$24,715.17	\$-684.00	3,713.33 %	\$-119.86	\$-2,105.10	94.31 %	\$26,719.83	\$-4,826.33	653.63 %
NET INCOME	\$2,872.77	\$2,772.52	3.62 %	\$-5,656.83	\$5,309.72	-206.54 %	\$27,122.82	\$6,906.07	292.74 %	\$-13,503.74	\$-4,154.56	-225.03 %	\$10,835.02	\$10,833.75	0.01 %

If PPP2, signed illustration of 25% decline in gross revenues

- QuickBooks Profit & Loss report comparing “Previous Year” by percentage is best, but any reasonable indication works (e.g., spreadsheet with 2019 vs 2020 Form 1099 totals; tax returns; adding up bank statement income, etc.)

HOW TO APPLY: DOCUMENTS NEEDED

CORPORATION (*S-Corp, C-Corp, Co-ops, i.e., entities filing IRS Form 1120 series*)
or **NON-PROFIT** (*entities filing IRS Form 990 series*):

- IRS form 941 for all four quarters of 2019; annual Form 940
- If you offer health/vision/dental insurance or retirement, employer cost for 2019
- Some lenders require Articles of Incorporation/Bylaws/Operating Agreement showing % of ownership

SOLE PROPRIETOR (*Independent Contractors, Freelancers, Single-Member LLCs*):

- 2019 Form Schedule C from Tax Return (Form 1040)
- If you have employees: IRS form 941 for all four quarters of 2019; annual form 940
- If you offer health/vision/dental insurance or retirement, employer cost for 2019

PARTNERSHIP (*including Multi-Member LLCs; i.e., entities filing IRS Form 1065*):

- 2019 Business Tax Return (Form 1065) including K-1s
- If you have employees, IRS form 941 for all four quarters of 2019; annual form 940
- If you offer health/vision/dental insurance or retirement, employer cost for 2019

<https://www.biz2credit.com/blog/wp-content/uploads/2021/02/PPP-supporting-documents-guidebook.pdf>



HOW TO APPLY: SBA APPLICATION



**Paycheck Protection Program
Borrower Application Form Revised January 8, 2021**

SBA Form No. 1241-0987
Expiration Date: 7/31/2021

Check One: <input type="checkbox"/> Sole Proprietor <input type="checkbox"/> Partnership <input type="checkbox"/> C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> LLC		DBA or Tradename (if applicable)	Year of Establishment (if applicable)
<input type="checkbox"/> Independent Contractor <input type="checkbox"/> Self-Employed Individual <input type="checkbox"/> 501(c)(3) nonprofit <input type="checkbox"/> 501(c)(6) organization <input type="checkbox"/> 501(c)(19) veterans organization <input type="checkbox"/> Housing cooperative <input type="checkbox"/> Tribal business <input type="checkbox"/> Other			
Business Legal Name		NAICS Code	Applicant (including affiliates, if applicable) Meets Size Standard (check one): <input type="checkbox"/> No more than 500 employees (or 300 employees, if applicable) <input type="checkbox"/> SBA industry size standards <input type="checkbox"/> SBA alternative size standard
Business Address (Street, City, State, Zip Code - No P.O. Box addresses allowed)		Business TIN (EIN, SSN)	Business Phone
		Primary Contact	Email Address
Average Monthly Payroll:	\$	x 2.5 + EIDL (Do Not Include Any EIDL Advances) equals Loan Request Amount:	\$
			Number of Employees:
Purpose of the loan (select all that apply):	<input type="checkbox"/> Payroll Costs	<input type="checkbox"/> Rent / Mortgage Interest	<input type="checkbox"/> Utilities
	<input type="checkbox"/> Covered Property Damage	<input type="checkbox"/> Covered Supplier Costs	<input type="checkbox"/> Covered Worker Protection Expenditures
			<input type="checkbox"/> Covered Operations Expenditures
			<input type="checkbox"/> Other (explain):


Applicant Ownership
List all owners of 20% or more of the equity of the Applicant. Attach a separate sheet if necessary.

Owner Name	Title	Ownership %	TIN (EIN, SSN)	Address

If questions (1), (2), (3), or (8) are answered "Yes," the loan will not be approved.

Question	Yes	No
1. Is the Applicant or any owner of the Applicant presently suspended, debarred, proposed for debarment, declared ineligible, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy?		
2. Has the Applicant, any owner of the Applicant, or any business owned or controlled by any of them, ever obtained a direct or guaranteed loan from SBA, or any other Federal agency that is (a) currently delinquent, or (b) has defaulted in the last 7 years and caused a loss to the government?		
3. Is the Applicant or any owner of the Applicant an owner of any other business, or have common management (including a management agreement) with any other business? If yes, list all such businesses (including their TINs if available) and describe the relationship on a separate sheet identified as addendum A.		
4. Did the Applicant receive an SBA Economic Injury Disaster Loan between January 31, 2020 and April 3, 2020? If yes, provide details on a separate sheet identified as addendum B.		
5. Is the Applicant (if an individual) or any individual owning 20% or more of the equity of the Applicant presently incarcerated or, for any felony, presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction? <i>Initial here to confirm your response to question 5.</i>		
6. Within the last 5 years, for any felony involving fraud, bribery, embezzlement, or a false statement in a loan application or an application for federal financial assistance, or within the last year, for any other felony, has the Applicant (if an individual) or any owner of the Applicant 1) been convicted; 2) pleaded guilty; 3) pleaded nolo contendere; or 4) commenced any form of parole or probation (including probation before judgment)? <i>Initial here to confirm your response to question 6.</i>		
7. Is the United States the principal place of residence for all employees included in the Applicant's payroll calculation above?		
8. Is the Applicant a franchise?		
9. Is the franchise listed in the SBA's Franchise Directory? If yes, enter the SBA Franchise Identifier Code here:		

HOW TO APPLY: FILLING OUT THE FORM

 Paycheck Protection Program Borrower Application Form <u>Revised January 8, 2021</u>			OMB Control No.: 3245-0407 Expiration Date: 7/31/2021
Check One: <input type="checkbox"/> Sole Proprietor <input type="checkbox"/> Partnership <input type="checkbox"/> C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> LLC <input type="checkbox"/> Independent Contractor <input type="checkbox"/> Self-Employed Individual <input type="checkbox"/> 501(c)(3) nonprofit <input type="checkbox"/> 501(c)(6) organization <input type="checkbox"/> 501(c)(19) veterans organization <input type="checkbox"/> Housing cooperative <input type="checkbox"/> Tribal Business <input type="checkbox"/> Other	DBA or Tradename (if applicable)	Year of Establishment (if applicable)	
Business Legal Name	NAICS Code	Applicant (including affiliates, if applicable) Meets Size Standard (check one): <input type="checkbox"/> No more than 500 employees (or 300 employees, if applicable) <input type="checkbox"/> SBA industry size standards <input type="checkbox"/> SBA alternative size standard	

- Most lenders will have you use their portal to apply – not the actual SBA form
- Entity checkboxes are confusing; recommend you select tax filing status
- You can find your NAICS Code on your most recent tax return, or look it up at [NAICS.com/search](https://www.naics.com/search)

HOW TO APPLY: FILLING OUT THE FORM

NAICS & SIC Identification Tools

Enter Keyword(s) [NAICS Search](#)

Enter Keyword(s) [SIC Search](#)

[NAICS CODE DRILL-DOWN](#) [SIC CODE DRILL-DOWN](#) [COMPANY LOOKUP TOOL](#) [NAICS LOOKUP HELP](#)

NAICS CODE LIST: Click Any Two Digit NAICS Code to Drill Down Further

<u>Code</u>	<u>Industry Title</u>	<u>Number of Business Establishments</u>
11	Agriculture, Forestry, Fishing and Hunting	382,038
21	Mining	32,529
22	Utilities	47,917
23	Construction	1,526,509
31-33	Manufacturing	643,451
42	Wholesale Trade	701,077
44-45	Retail Trade	1,824,281

HOW TO APPLY: FILLING OUT THE FORM

Business Address (Street, City, State, Zip Code - No P.O. Box addresses allowed)	Business TIN (EIN, SSN)	Business Phone
	Primary Contact	Email Address

- IRS issues EINs upon request for banking or payroll tax purposes
- If you're a sole proprietor without an EIN: Business TIN is your social security number
- Business TIN is different for each business you own; each business files its own application (limits of \$100k and 2.5 months of 2019 owner compensation across all companies)

HOW TO APPLY: FILLING OUT THE FORM

Average Monthly Payroll:	\$	x 2.5 + EIDL (Do Not Include Any EIDL Advance) equals Loan Request Amount:	\$	Number of Employees:	
Purpose of the loan (select all that apply):	<input type="checkbox"/> Payroll Costs	<input type="checkbox"/> Rent / Mortgage Interest	<input type="checkbox"/> Utilities	<input type="checkbox"/> Covered Operations Expenditures	
	<input type="checkbox"/> Covered Property Damage	<input type="checkbox"/> Covered Supplier Costs	<input type="checkbox"/> Covered Worker Protection Expenditures	<input type="checkbox"/> Other (explain): _____	

- Average monthly payroll determines the final loan amount
- It should include staff and owner compensation combined
- Number of employees is just a head-count (full-time + part-time)
- Always check “Payroll Costs” as one of the purposes of the loan – the rest do not matter and are just for informational data

HOW TO APPLY: FILLING OUT THE FORM

CALCULATING AVERAGE MONTHLY PAYROLL: **SOLE PROPRIETOR, INDEPENDENT CONTRACTOR, FREELANCER, SINGLE-MEMBER LLC**

1. Refer to Schedule C on 2019 IRS 1040 Tax Return

- Line 31 is net income
- You may use either 2019 or 2020 net income

2. If you have no employees, then:

- a. Divide this by 12
- b. Multiply by 2.5 (3.5 if NAICS 72: e.g., restaurant)

SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)

Department of the Treasury Internal Revenue Service (IRS) OMB No. 1545-0046
Attachment Sequence No. 09
2018

Go to www.irs.gov/ScheduleC for instructions and the latest information.
Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor: _____ Social security number (SSN): _____

A Principal business or profession, including product or service (see instructions) **B** Enter code from instructions: _____

C Business name, if no separate business name, leave blank. **D** Employer ID number (EIN) (see instructions): _____

E Business address (including suite or room no.) _____
City, town or post office, state, and ZIP code: _____

F Accounting method: Cash Accrual Other (specify) _____

G Did you "materially participate" in the operation of this business during 2018? If "No," see instructions for limit on losses. Yes No

H If you started or acquired this business during 2018, check here: _____

I Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) Yes No

J If "Yes," did you or will you file required Form(s) 1099? Yes No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked. <input type="checkbox"/>	1
2	Returns and allowances	2
3	Subtract line 2 from line 1	3
4	Cost of goods sold (from line 42)	4
5	Gross profit. Subtract line 4 from line 3	5
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6
7	Gross income. Add lines 5 and 6	7

Part II Expenses. Enter expenses for business use of your home only on line 30.

8	Advertising	8	18	Office expense (see instructions)	18
9	Car and truck expenses (see instructions)	9	19	Pension and profit-sharing plans	19
10	Commissions and fees	10	20	Rent or lease (see instructions)	20
11	Contract labor (see instructions)	11	21	a. Vehicles, machinery, and equipment	20a
12	Depletion	12	21	b. Other business property	20b
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	22	Repairs and maintenance	21
14	Employee benefit programs (other than on line 19)	14	23	Supplies (not included in Part III)	22
15	Insurance (other than health)	15	24	Taxes and licenses	23
16	Interest (see instructions):	16	24a	Travel and meals:	24a
16a	Mortgage (paid to banks, etc.)	16a	24b	a. Travel	24a
16b	Other	16b	24b	b. Deductible meals (see instructions)	24b
17	Legal and professional services	17	25	Utilities	25
18			26	Wages (less employment credits)	26
19			27a	Other expenses (from line 48)	27a
20			27b	Reserved for future use	27b
21			28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28
22			29	Net profit or (loss). Subtract line 28 from line 7	29
23			30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30. and (b) the part of your home used for business: _____ Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30.	30
24			31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.	31
25			32	If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited.	32

32a All investment is at risk.
32b Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11234P Schedule C (Form 1040) 2018

HOW TO APPLY: FILLING OUT THE FORM

CALCULATING AVERAGE MONTHLY PAYROLL: *SOLE PROPRIETOR, INDEPENDENT CONTRACTOR, FREELANCER, SINGLE-MEMBER LLC*

Method Worksheet in the instructions to figure the amount to enter on line 30

30	
31	\$60,000

31 Net profit or (loss). Subtract line 30 from line 29.

- If a profit, enter on both **Schedule 1 (Form 1040), line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3**.
- If a loss, you **must** go to line 32.

Example:

$$\$60,000 / 12 \text{ months} = \$5,000 \text{ average payroll per month}$$

$$\$5,000 \times 2.5 = \mathbf{\$12,500}$$

HOW TO APPLY: FILLING OUT THE FORM

CALCULATING AVERAGE MONTHLY PAYROLL: *PARTNERSHIPS*

1. Refer to Form 1065

Form 1065 Department of the Treasury Internal Revenue Service		U.S. Return of Partnership Income For calendar year 2020, or tax year beginning _____, 2020, ending _____, 20____. ▶ Go to www.irs.gov/Form1065 for instructions and the latest information.		OMB No. 1545-0123 2020
A Principal business activity	Type or Print	Name of partnership		D Employer identification number
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see instructions.		E Date business started
C Business code number		City or town, state or province, country, and ZIP or foreign postal code		F Total assets (see instructions) \$ _____
G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶ _____ I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ _____ J Check if Schedules C and M-3 are attached ▶ <input type="checkbox"/> K Check if partnership: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes				

HOW TO APPLY: FILLING OUT THE FORM

CALCULATING AVERAGE MONTHLY PAYROLL: *PARTNERSHIPS*

2. Refer to Schedule K on IRS 1065 Tax Return
 - Line 14a is total net earnings (loss) from self-employment for all partners combined
 - If no one earned over \$100k, you can just use this as your partner payroll total
 - You may use either 2019 or 2020 net income

Form 1065 (2020) Page **4**

Schedule K		Partners' Distributive Share Items	Total amount
Income (Loss)	1	Ordinary business income (loss) (page 1, line 22)	1
	2	Net rental real estate income (loss) (attach Form 8825)	2
	3a	Other gross rental income (loss)	3a
	b	Expenses from other rental activities (attach statement)	3b
	c	Other net rental income (loss). Subtract line 3b from line 3a	3c
	4	Guaranteed payments: a Services 4a b Capital 4b	4c
	c	Total. Add lines 4a and 4b	4c
	5	Interest income	5
	6	Dividends and dividend equivalents: a Ordinary dividends b Qualified dividends 6b c Dividend equivalents 6c	6a
	7	Royalties	7
	8	Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8
9a	Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a	
	b Collectibles (28%) gain (loss)	9b	
	c Unrecaptured section 1250 gain (attach statement)	9c	
10	Net section 1231 gain (loss) (attach Form 4797)	10	
11	Other income (loss) (see instructions) Type ▶	11	
Deductions	12	Section 179 deduction (attach Form 4562)	12
	13a	Contributions	13a
	b	Investment interest expense	13b
	c	Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c(2)
d	Other deductions (see instructions) Type ▶	13d	
Self-Employment	14a	Net earnings (loss) from self-employment	14a \$60,000
	b	Gross farming or fishing income	14b
	c	Gross nonfarm income	14c
Credits	15a	Low-income housing credit (section 42(j)(5))	15a
	b	Low-income housing credit (other)	15b
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c
	d	Other rental real estate credits (see instructions) Type ▶	15d
	e	Other rental credits (see instructions) Type ▶	15e
	f	Other credits (see instructions) Type ▶	15f

HOW TO APPLY: FILLING OUT THE FORM

CALCULATING AVERAGE MONTHLY PAYROLL: *PARTNERSHIPS*

3. Refer to Schedule K1 on IRS 1065 Tax Return

- If certain partners earned \$100k or more, you need instead to add up Line 14a on each of the individual K-1 forms from the return
- Line 14a is self-employment earnings (loss)
- You may use either 2019 or 2020 net income

Schedule K-1 (Form 1065) 2020
Department of the Treasury Internal Revenue Service
For calendar year 2020, or tax year beginning / / 2020 ending / /

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4a	Guaranteed payments for services		
4b	Guaranteed payments for capital		
4c	Total guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
6c	Dividend equivalents	17	Alternative minimum tax (AMT) items
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	18	Tax-exempt income and nondeductible expenses
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)		
11	Other income (loss)	19	Distributions
12	Section 179 deduction		
13	Other deductions	20	Other information
14	Self-employment earnings (loss)		
A	\$20,000		

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

C IRS Center where partnership filed return

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

G General partner or LLC member-manager Limited partner or other LLC member

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's: TIN _____ Name _____

I1 What type of entity is this partner?

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	\$	\$
Qualified nonrecourse financing	\$	\$
Recourse	\$	\$

Check this box if item K includes liability amounts from lower tier partnerships.

L **Partner's Capital Account Analysis**

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$

HOW TO APPLY: FILLING OUT THE FORM

CALCULATING AVERAGE MONTHLY PAYROLL: *PARTNERSHIPS*

Self-employment	14a	Net earnings (loss) from self-employment	14a	\$60,000
	b	Gross farming or fishing income	14b	
	c	Gross nonfarm income	14c	
	15a	Low-income housing credit (section 4205A)	15a	

Example:

$\$60,000 / 12 \text{ months} = \$5,000$ average payroll per month

$\$5,000 \times 2.5 = \mathbf{\$12,500}$

HOW TO APPLY: FILLING OUT THE FORM

CALCULATING AVERAGE MONTHLY PAYROLL: *EMPLOYEES*

Note: THIS INCLUDES OWNERS OF CORPORATIONS

1. Log into to your payroll processing company & go to Reports
 - Find your **total gross payroll** (includes sick pay, vacation costs, healthcare, etc.)
 - Most payroll companies at this point have a PPP report you can use <https://support.gusto.com/1840352911/Paycheck-Protection-Program-Report.htm>
 - Don't forget to add employer portion of health insurance & retirement
2. Divide this by 12
3. Multiply by 2.5 (3.5 if NAICS 72: e.g., restaurant)

PPP application report

Updated

Get relief for your payroll and more. Download your report to apply for the PPP — these funds are first come, first served.

[Get started](#)

HOW TO APPLY: FILLING OUT THE FORM

Average Monthly Payroll:	\$	x 2.5 + EIDL (Do Not Include Any EIDL Advance) equals Loan Request Amount:	\$	Number of Employees:	
Purpose of the loan (select all that apply):	<input type="checkbox"/> Payroll Costs	<input type="checkbox"/> Rent / Mortgage Interest	<input type="checkbox"/> Utilities	<input type="checkbox"/> Covered Operations Expenditures	
	<input type="checkbox"/> Covered Property Damage	<input type="checkbox"/> Covered Supplier Costs	<input type="checkbox"/> Covered Worker Protection Expenditures	<input type="checkbox"/> Other (explain): _____	

- Average monthly payroll **should include staff and owner compensation combined**, divided by 12
 - If sole proprietor, Sch C Line 31 + if employees, total calculated payroll
 - If partnership, Sch K Line 14a + if employees, total calculated payroll
 - If corporation, owners are employees, so only need total calculated payroll

HOW TO APPLY: FILLING OUT THE FORM

Applicant Ownership

List all owners of 20% or more of the equity of the Applicant. Attach a separate sheet if necessary.

Owner Name	Title	Ownership %	TIN (EIN, SSN)	Address

HOW TO APPLY: FILLING OUT THE FORM

If questions (1), (2), (5), or (6) are answered "Yes," the loan will not be approved.

Question	Yes	No
1. Is the Applicant or any owner of the Applicant presently suspended, debarred, proposed for debarment, declared ineligible, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy?		
2. Has the Applicant, any owner of the Applicant, or any business owned or controlled by any of them, ever obtained a direct or guaranteed loan from SBA or any other Federal agency that is (a) currently delinquent, or (b) has defaulted in the last 7 years and caused a loss to the government?		
3. Is the Applicant or any owner of the Applicant an owner of any other business, or have common management (including a management agreement) with any other business? If yes, list all such businesses (including their TINs if available) and describe the relationship on a separate sheet identified as addendum A.		
4. Did the Applicant receive an SBA Economic Injury Disaster Loan between January 31, 2020 and April 3, 2020? If yes, provide details on a separate sheet identified as addendum B.		
5. Is the Applicant (if an individual) or any individual owning 20% or more of the equity of the Applicant presently incarcerated or, for any felony, presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction? Initial here to confirm your response to question 5 → _____		
6. Within the last 5 years, for any felony involving fraud, bribery, embezzlement, or a false statement in a loan application or an application for federal financial assistance, or within the last year, for any other felony, has the Applicant (if an individual) or any owner of the Applicant 1) been convicted; 2) pleaded guilty; 3) pleaded nolo contendere; or 4) commenced any form of parole or probation (including probation before judgment)? Initial here to confirm your response to question 6 → _____		
7. Is the United States the principal place of residence for all employees included in the Applicant's payroll calculation above?		
8. Is the Applicant a franchise?		
9. Is the franchise listed in the SBA's Franchise Directory? If yes, enter the SBA Franchise Identifier Code here: _____		

WHERE TO APPLY?

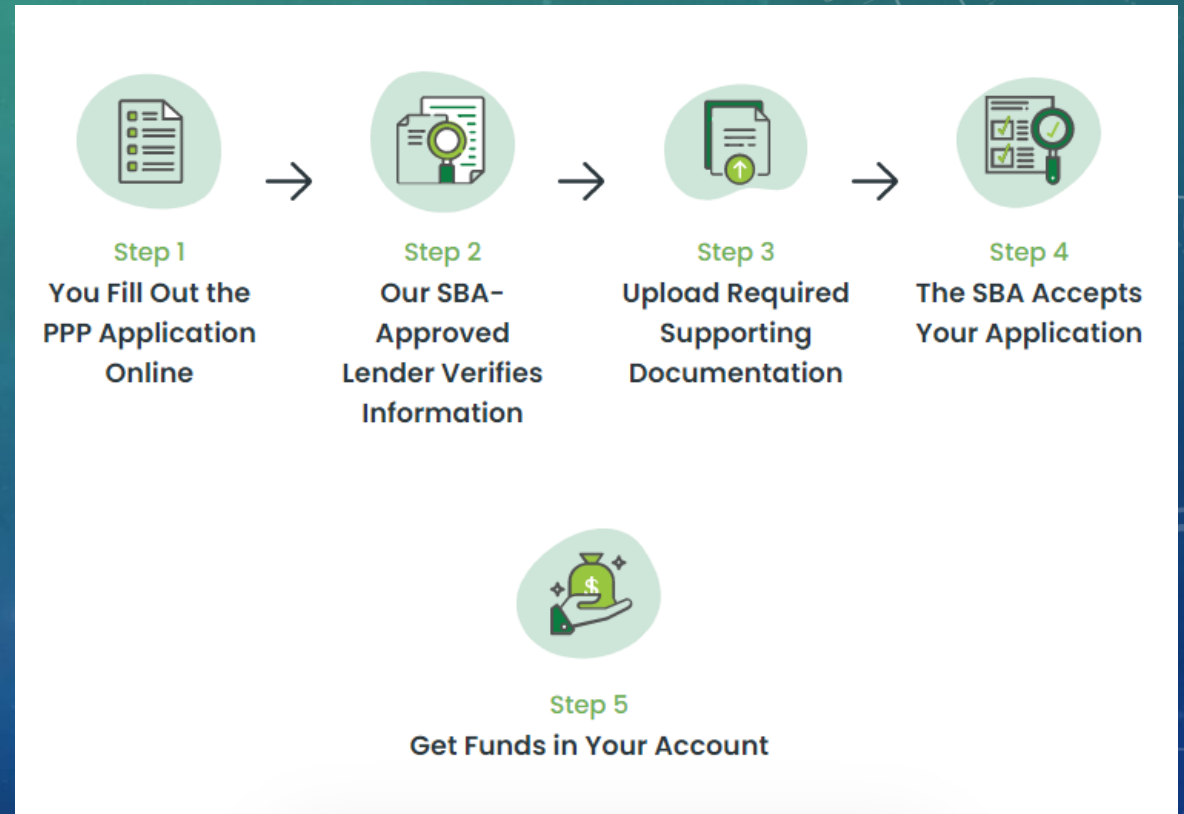
- Local banks, Community Lending Institutions, and online banks or alternative lenders (not a broker or middle-man) have much higher satisfaction rates than the big banks.
- For Round 1, my clients had the best luck with Cross River Bank:
<https://crossriversba.com/>
- This time, we are using the CPA Loan Portal, powered by Biz2Credit:
<https://www.biz2credit.com/disaster-support/cares-act-loans-coronavirus>
- The SBA's Lender Match Tool can help if you don't have an existing relationship with a lender.
<https://www.sba.gov/funding-programs/loans/lender-match>

WHERE TO APPLY: SUGGESTED LENDER



[Biz2credit.com/PPP](https://biz2credit.com/PPP)

- Leading Funding Platform
- \$3B+ Small Business Financing
- SBA Approved Direct Funder
- 250,000+ Small Businesses



APPLICATION RESOURCES

American Institute of CPAs FREE PPP Loan Resources

- <https://future.aicpa.org/resources/download/ppp-loan-amount-calculators>
- <https://future.aicpa.org/resources/download/ppp-loan-forgiveness-calculator-excel>
- <https://future.aicpa.org/resources/download/summary-of-ppp-after-enactment-of-the-economic-aid-act>

Gusto How To Apply for A PPP Loan: Step-By-Step

- <https://gusto.com/blog/business-finance/second-draw-ppp-application-process>

SCORE: How To Qualify & Apply For PPP

- <https://www.score.org/resource/new-paycheck-protection-program-ppp-loans-how-qualify-and-apply>

Clara CFO Group YouTube Series

- <https://www.youtube.com/c/ClaraCFOGroup/videos>

HOW TO APPLY: DENIED, NOW WHAT?

- Ask your lender why the application was denied
- Understand the status of your application
- 25% of applications from all lenders are being held up because of SBA validation requests (error codes) or erroneous flags that are causing additional review by the SBA – little guidance being provided to lenders on how to resolve these
- Do you have an existing PPP1 application pending forgiveness?
- If your application was denied because of an error, you can submit a new, corrected application
- Try another lender – make sure to withdraw application from first lender
- If you are sure you qualify, do not give up; consider requesting help from a community resource, small local bank or an accounting professional

FORGIVENESS BASICS

- The amount of loan forgiveness can be up the full principal amount of the PPP loan and any accrued interest.
- At least 60% of the PPP loan proceeds must be used for payroll costs.
 - For companies with loans over \$50k, with employees, there are specific requirements for how it must be spent: FTE reductions, reductions in employee salary or wages, three different safe harbors, limit of \$100k in compensation; owner limit of 2.5 months of 2019 compensation – topic for another webinar
- The “Loan Forgiveness Covered Period” begins on the date the lender disburses the PPP loan and ends on any date selected by the borrower from 8-to-24 weeks after the date of disbursement (not either/or).
- Reminder: Payroll costs that are qualified wages taken into account in determining the Employee Retention Tax Credit are not eligible for loan forgiveness.
- We are currently recommending to our clients that they wait to file for forgiveness.
<https://www.jdsupra.com/legalnews/why-you-may-want-to-wait-to-file-for-1433896/>
- ERC & PPP Interaction – so many complexities
<https://www.businessasap.com/resources/blog-webinars/employee-retention-tax-credit/>

FORGIVENESS BASICS: ELIGIBLE COSTS

Costs eligible for forgiveness (our clients are tracking each grant by “class” in QuickBooks to prevent double-dipping):

1. Payroll costs (or owner income replacement for self-employed borrowers) now defined the same as in application
2. Mortgage interest incurred before February 15, 2020
3. Rent on leases dated before February 15, 2020
4. Utilities for service that began before February 15, 2020
5. Covered operations expenditures
6. Covered property damage costs
7. Covered supplier costs
8. Covered worker protection costs

For more details, see the Clara CFO Group YouTube video –
https://www.youtube.com/watch?v=XX_ng_LggbU

FORGIVENESS BASICS: \$50K OR LESS

A borrower can apply for forgiveness once they have used all of the loan proceeds.

01

Sign and submit a one-page form (3508S)

02

Attest to complying with PPP requirements

03

Report loan amount

04

Report number of employees retained

05

Report estimate of loan amount spent on payroll

06

Retain records

- 4 years for employment
- 3 years for other

FORGIVENESS BASICS: \$50K TO \$150K

- In October 2020, the SBA released an Interim Final Rule stating that PPP borrowers of \$50,000 or less are exempted from any reductions in forgiveness based on:
 - Reductions in full-time-equivalent (FTE) employees; and
 - Reductions in employee salary or wages.
- Whereas for loans of \$150k or below, but greater than \$50k, though the simplified form can also be used – but the borrower must maintain paperwork showing that these reductions were in fact part of the calculation, or that one of the many safe harbors applies.

OMB Control No: 3245-6047
Expiration Date: 7/31/2021

Paycheck Protection Program
PPP Loan Forgiveness Application Form 3508S Revised January 19, 2021
A BORROWER MAY USE THIS FORM ONLY IF THE BORROWER RECEIVED A PPP LOAN OF \$150,000 OR LESS

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

First Draw PPP Loan Second Draw PPP Loan (check one)

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: _____
Covered Period: _____ to _____

If Borrower (Together with Affiliates, if Applicable) Received First Draw PPP Loans of \$2 Million or More or Second Draw PPP Loans of \$2 Million or More, Check Here:

Amount of Loan Spent on Payroll Costs: _____ Requested Loan Forgiveness Amount: _____

By 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 Borrower has complied with all requirements in the Paycheck Protection Program Rules (Sections 7(a)(36), (7)(a)(37), and 7A of the Small Business Act, the PPP interim final rules, and guidance issued by SBA through the date of this application), including the rules related to:

- eligible uses of PPP loan proceeds;
- the amount of PPP loan proceeds that must be used for payroll costs;
- the calculation and documentation of the Borrower's revenue reduction (if applicable); and
- the calculation of the Borrower's Requested Loan Forgiveness Amount.

Information regarding these requirements may be found in the Form 3508S Instructions and the Paycheck Protection Program Rules.

The information provided in this application 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 U.S.C. 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 U.S.C. 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 U.S.C. 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.

Following submission of this forgiveness application, the Borrower must retain all records necessary to prove compliance with Paycheck Protection Program Rules for four years for employment records and for three years for all other records. SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and 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 in a denial of the Borrower's loan forgiveness application.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the Paycheck Protection Program Rules. 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

Title

<https://www.sba.gov/document/sba-form-3508s-ppp-loan-forgiveness-form-3508s>

<https://www.journalofaccountancy.com/news/2020/oct/ppp-forgiveness-simplified-for-loans-50000-less.html>

FORGIVENESS BASICS: ABOVE \$150K

01

Form 3508EZ – for borrowers that did not reduce salary or wages of any employee by more than 25 percent, AND:

- a) did not reduce the number of employees or average paid hours; or,
- b) were unable to operate at the same level of business capacity because of COVID-related restrictions.

02

Form 3508 –
for use by all borrowers that are ineligible to use Forms 3508S or 3508EZ

FORGIVENESS BASICS: WHAT HAPPENS IF NOT FORGIVEN ENTIRELY

- Any portion of the loan that is not forgiven will carry an interest rate of 1.0% and is due to be paid back within five years.
 - ❖ Loans made before June 5 have a two-year term, as they were disbursed before the PPP Forgiveness Act as enacted (negotiate with the bank to extend to 5 years)
- Payments may be deferred for the first ten months after the end of the covered period
- No pre-payment penalty

Official Resources and Forms

- [SBA PPP Website](#)
- [Treasury PPP Website](#)
- [Top-Line Overview of First Draw PPP Loans](#)
- [Top-Line Overview of Second Draw PPP Loans](#)
- SBA Form 2483 – [First Draw PPP Loan Borrower Application](#)
- SBA Form 2483-SD – [Second Draw PPP Loan Borrower Application](#)
- SBA Form 3508D – [Borrower's Disclosure of Certain Controlling Interests](#)
- IFR 1 – [PPP as amended by Economic Aid Act](#)
- IFR 2 – [PPP Second Draw Loans](#)
- IFR 3 – [Loan Forgiveness Requirements and Loan Review Procedures as Amended by Economic Aid Act](#)
- SBA Guidance – [How To Calculate Maximum Loan Amounts For First Draw PPP Loans](#)
- SBA Guidance – [Second Draw Paycheck Protection Program \(PPP\) Loans: How to Calculate Revenue Reduction and Maximum Loan Amounts Including What Documentation to Provide](#)
- SBA Procedural Notice 5000-20075 – [Repeal of EIDL Advance Deduction Requirement for SBA Loan Forgiveness Remittances to PPP Lenders](#)
- SBA Procedural Notice 5000-20076 – [First Draw Paycheck Protection Program Loan Increases After Enactment of the Economic Aid Act](#)
- SBA Procedural Notice 5000-20077 – [Paycheck Protection Program Borrower Resubmissions of Loan Forgiveness Applications Using Form 3508S, Lender Notice Responsibilities to PPP Borrowers, and Offset to Remittances to Lender for Lender Debts](#)
- SBA Procedural Notice 5000-20078 – [Paycheck Protection Program Excess Loan Amount Errors](#)
- IRS [Rev. Rul. 2021-02](#)

QUESTIONS

[Sign up for a webinar](#) being offered by the SBA on Tuesday, February 23, 2021 at 10 am Central

This webinar and slide deck are intended for educational purposes and should not be taken as legal or tax advice. You should consult with your financial professionals about your unique situation before acting on anything presented. The Dancing Accountant is providing educational content to help small business owners become more informed, but we cannot give legal advice; Nancy McClelland LLC DBA The Dancing Accountant and its staff cannot be held liable for any use or misuse of this content.