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## IAAI NEWS FLASH

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### Payroll Protection Programs Forgivable Loans

The CARES Act provides small businesses with assistance to continue to operate and pay their employees during the current pandemic in the form of a payroll protection loan. This loan is available to small businesses with 500 or less employees and to self employed sole proprietors. Some or all of the loan may be forgivable if the funds are used for purposes defined in the Act.

#### Both IAAI members and their clients can apply for and receive this loan.

An eligible recipient applying for this loan only needs to make a good faith certification that the uncertainty of current economic conditions makes the loan necessary to support the ongoing operations of the eligible recipient; acknowledging that funds will be used only to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments; that the eligible recipient does not have an application pending for another loan under this subsection for the same purpose and during the period beginning on February 15, 2020 and ending on December 31, 2020, that the eligible recipient has not received amounts under this subsection for the same purpose. In other words, the application process is extremely simple. It needs to be done through a bank, not directly through the SBA.

#### **Basic Filing Requirements**

- Complete the SBA loan application (SBA Form 5)
- Submit Tax Information Authorization Forms (IRS Form 4506T) for the applicant, principals and affiliates.
- Submit copies of the most recent Business Federal Income Tax Return.
- Submit Schedule of Liabilities (SBA Form 2202).
- Submit a Personal Financial Statement (SBA Form 413)

Required forms can be downloaded from the SBA and IRS websites as appropriate.

#### **Other information that may be requested:**

- Most recent personal Federal income tax returns including all schedules for principals, general partners or managing member, and affiliates.
- If the most recent Federal income tax return has not been filed, a year-end profit-and-loss statement and balance sheet for the 2019 tax year.
- A current year-to-date profit-and-loss statement
- Additional Filing Requirements (SBA Form 1368) providing monthly sales figures
- The program can be retroactive to February 15, 2020, so employees can return onto payrolls. The loan's covered period is February 15 to June 30, 2020. The expected

forgiveness amount can be expended on payroll costs, payments of interest on a mortgage obligation, rent obligations, and utility payments. The loan can pay for:

- The sum of payments of any compensation with respect to employees that is a salary or wage;
- Payment for vacation, parental, family, medical, or sick leave;
- Payment of State or local tax assessed on the compensation of employees.
- No collateral, or personal guarantee, shall be required for the covered loan.

The maximum loan amount will be the lesser of:

1. Two and a half months payroll, as calculated by taking the average total monthly payments by the business for payroll costs incurred during the 1-year period before the date on which the loan is made. For a seasonal employer, the business calculates the average total monthly payments for payroll during the 12-week period beginning February 15, 2019, or at the choice of the business, March 1, 2019, and ending June 30, 2019. Multiply this number by 2.5 for two and a half months payroll or
2. \$10,000,000
  - Restricted from being included in the payroll calculation are: Any salaries above \$100,000 per year and any qualified sick leave wages for which a tax credit is allowed under section 7001 or 7003 of the Families First Coronavirus Response Act.

#### **What Is Loan Forgiveness?**

3. The borrower is eligible for loan forgiveness equal to the amount spent by the borrower during an eight-week period after the origination date of the loan on payroll costs, interest payment on any mortgage incurred prior to February 15, 2020, payment of rent on any lease in force prior to February 15, 2020, and payment on any utility for which service began before February 15, 2020.
  - Amounts forgiven may not exceed the principal amount of the loan.
4. Forgiveness on a covered loan is equal to the sum of the following payroll costs incurred during the covered eight-week period compared to the previous year or time period, proportionate to maintaining employees and wages:
  - Payroll costs plus any payment of interest on any covered mortgage obligation (which shall not include any prepayment of or payment of principal on a covered mortgage obligation) plus any payment on any covered rent obligation plus any covered utility payment.
  - The amount forgiven will be reduced proportionally by any reduction in employees retained compared to the prior year and reduced by the reduction in pay of any employee beyond 25% of their prior year compensation.