

**Fw: [EXTERNAL] PPP loan forgiveness application**

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**To:** Richard W. Head <rwh@rathlaw.com>**From:** Deborah Tarbox <dtarbox@melansoncpas.com>**Sent:** Thursday, October 8, 2020 10:21 AM**To:** Torres, George <george.torres@PENNICHUCK.com>**Cc:** Goodhue, Larry <larry.goodhue@PENNICHUCK.com>; Howe, Carol Ann <carolann.howe@PENNICHUCK.com>; Douglas, Lori <lori.douglas@PENNICHUCK.com>; Matt Sawyer <msawyer@melansoncpas.com>; Duy Nguyen <dnguyen@melansoncpas.com>**Subject:** [EXTERNAL] PPP loan forgiveness application

Good morning George,

As we have discussed, PPP loan forgiveness and applying for forgiveness are not black and white. Your loan is greater than \$2 million and therefore will be audited by the SBA for completeness and accuracy. Caution needs to be exercised in maintaining all supporting documentation. Management's decision on whether to apply for loan forgiveness now or to wait is one that requires thought and understanding. Pennichuck's loan forgiveness application must be applied for within 10 months after your covered period. For business clients with loans greater than \$2 million, we are advising clients to wait for additional guidance that will make certain provisions clearer. It is possible that no new guidelines are issued and the rules stay the same with unanswered questions and certain assumptions will need to be made in order to apply within the 10 month period.

For Pennichuck, some of the provisions which we believe still require additional guidance are as follows:

i) *Taxability of the PPP loan amount*

In the Cares Act it was stated that the PPP loan forgiveness will be tax free, however, this provision was not coordinated with IRS. Therefore, the PPP loan forgiveness amount is not taxable directly, but the expenses incurred against the exempt income are also not deductible. This means that indirectly the PPP loan forgiveness is taxable and will increase Pennichuck's tax liability.

ii) *Timing of the forgiveness and taxable year*

As per the SBA guidance, the lender should submit a loan forgiveness application to SBA within 60 days and the SBA will take a decision within 90 days. That means it could take up to 5 months to forgive the loan. The tax year the forgiveness of debt and associated expenses are taxable, is unclear.

iii) *FTE calculation of comparison period*

The SBA has clarified the FTE calculation for the covered period, however, not much guidance has been provided on FTE calculation related to the comparison and rehire periods. For example, the guidance says that the comparison period of either Feb 15, 2019 – June 30, 2019 or Jan 1 to Feb 29, 2020 should be calculated. For rehire period Feb 15 – April 26, 2020 time period has been given. But most of the payroll periods will not align with these periods therefore businesses are using their assumption to pro rate these payroll periods.

If you have additional questions or need more information, please do not hesitate to contact me.

Best,  
Deborah

**Deborah Tarbox, CPA**

Principal



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# PPP loan forgiveness

*Borrowers may be eligible for Paycheck Protection Program (PPP) loan forgiveness.*

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## First Draw PPP Loan forgiveness terms

First Draw PPP loans made to eligible borrowers qualify for full loan forgiveness if during the 8- to 24-week covered period following loan disbursement:

- Employee and compensation levels are maintained
- The loan proceeds are spent on payroll costs and other eligible expenses; and
- At least 60% of the proceeds are spent on payroll costs

## Second Draw PPP Loan forgiveness terms

Second Draw PPP loans made to eligible borrowers qualify for full loan forgiveness if during the 8- to 24-week covered period following loan disbursement:

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- 
- The loan proceeds are spent on payroll costs and other eligible expenses; and
  - At least 60% of the proceeds are spent on payroll costs

## How and when to apply for loan forgiveness

A borrower can apply for forgiveness once all loan proceeds for which the borrower is requesting forgiveness have been used. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred, and borrowers will begin making loan payments to their PPP lender.

### To apply for loan forgiveness:

#### 1. Contact your PPP lender and complete the correct form:

Your lender can provide you with either the SBA Form 3508, SBA Form 3508EZ, SBA Form 3508S, or a lender equivalent.

The 3508EZ and the 3508S are shortened versions of the application for borrowers who meet specific requirements. Your lender can provide further guidance on how to submit the application.

#### 2. Compile your documentation:

**Payroll** (*provide documentation for all payroll periods that overlapped with the Covered Period or the Alternative Payroll Covered Period*):

- Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees
- Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
  - Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
  - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state



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included in the forgiveness amount

**Non-payroll** (*for expenses that were incurred or paid during the covered period and showing that obligations or services existed prior to February 15, 2020*):

- Business mortgage interest payments: Copy of lender amortization schedule and receipts verifying payments, or lender account statements
- Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments
- Business utility payments: Copies of invoices and receipts, cancelled checks or account statements

This list of documents required to be submitted to your lender is not all-inclusive.

**3. Submit the forgiveness form and documentation to your PPP lender:**

Complete your loan forgiveness application and submit it to your lender with the required supporting documents and follow up with your lender to submit additional documentation as requested. Consult your lender for additional guidance and provide requested documentation in a timely manner.

**4. Continue to communicate with your lender throughout the process:**

If SBA undertakes a review of your loan, your lender will notify you of the review and the SBA loan review decision. You have the right to appeal certain SBA loan review decisions. Your lender is responsible for notifying you of the forgiveness amount paid by SBA and the date on which your first payment will be due, if applicable.

**Please note:** Recent legislation eliminated the original requirement to deduct the amount of EIDL Advance you may have received from your PPP loan forgiveness.

## Forgiveness forms and instructions

- [FAQ About PPP Loan Forgiveness](#)
- [PPP Loan Forgiveness Application + Instructions](#)
- [PPP EZ Loan Forgiveness Application + Instructions](#)

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