



Via Email and Mail

November 9, 2020

Re: Paycheck Protection Program Loan Forgiveness

Dear Client:

Paycheck Protection Program Loan Forgiveness

This letter is an update to the Paycheck Protection Program (“PPP”) based on the PPP Flexibility Act of 2020 (“PPP Flexibility Act”).

The following is a summary of the major changes to the PPP based on the PPP Flexibility Act and PPP Loan Forgiveness:

- The covered period for borrowers to spend the PPP loan proceeds on forgivable expenses has been extended from 8 weeks to 24 weeks. If your PPP loan was funded before June 5, 2020, borrowers can choose to extend the covered period from 8 weeks to 24 weeks or keep the original 8 weeks period. If your PPP loan was funded on or after June 5, 2020, borrowers must use the 24 weeks covered period. The covered period can’t extend beyond December 31, 2020.
- The deadline to submit the PPP loan forgiveness application is within ten months from the end of the covered period. For example, if your covered period ends on October 30, 2020, the borrower has until August 30, 2021 to apply for loan forgiveness before loan payment begins.
- To receive loan forgiveness, borrowers need to use at least 60% of the loan proceeds for payroll costs and may use up to 40% on non-payroll costs. The CARES Act originally allowed at least 75% to be used on payroll costs and up to 25% on non-payroll costs.
- Spend at least 60% of the funds on payroll costs:
 - o Salaries
 - o Wages
 - o Vacation Pay
 - o Parental and Family Leave
 - o Employer Medical or Other Group Benefits
 - o Sick Leave

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- Employer Retirement Benefits
- Bonuses, Commissions or Hazard Pay
- Spend the remaining 40% of the funds on non-payroll costs (In order to be forgivable, the non-payroll costs had to be in effect prior to February 15, 2020):
 - Mortgage interest
 - Rent
 - Utilities
- The minimum loan maturity date for loans made after the date of enactment of the PPP Flexibility Act increased from 2 years to 5 years. The maturity date on previous PPP loans is not automatically extended, but it may be extended by mutual agreement of the lender and borrower. The interest rate remains at 1%.
- The bill extends the June 30 deadline to December 31, 2020 to rehire employees and reverse salary cuts of greater than 25%. A failure to rehire and reinstate salaries will cause a proportion reduction in loan forgiveness.
- Deductibility of expenses related to PPP loan forgiveness - On April 30, 2020, the IRS issued Notice 2020-32 clarifying that no deduction is allowed under the IRS Code for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a PPP loan and the income associated with the forgiveness is excluded from gross income.
- Timing of the deductibility of expenses related to PPP loan forgiveness – Based on IRS Notice 2020-32 these expenses associated with the PPP loan forgiveness are not deductible, however, we are not sure if these expenses are not deductible for the 2020 tax return or not until 2021 when PPP loan forgiveness is determined. We are waiting for additional guidance on the timing of the deductibility of expenses related to PPP loan forgiveness.
- For borrowers that received more than \$2 million of PPP loan are considered large borrowers and Small Business Administration (SBA) is requiring larger borrowers to complete Form 3509. This form is designed to collect information that SBA loan reviewers will use in evaluating good-faith certification borrowers made on their PPP application that economic uncertainty made their loan request necessary.



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Please refer to the links below related to PPP loan forgiveness:

- Link to the PPP Flexibility Act <https://www.congress.gov/bill/116th-congress/house-bill/7010/text>.
- Link to PPP Frequently Asked Questions (FAQs) on PPP Loan Forgiveness as of October 13, 2020 <https://www.sba.gov/document/support-frequently-asked-questions-ppp-loan-forgiveness>
- Link to PPP Loan Forgiveness Application Form 3508S
https://www.sba.gov/sites/default/files/2020-10/PPP%20Loan%20Forgiveness%20Application%20Form%203508S-508_0.pdf
- Link to PPP Loan Forgiveness Application Form 3508EZ
https://content.sba.gov/sites/default/files/2020-06/PPP%20Forgiveness%20Application%203508EZ%20%28%20Revised%206.16.2020%29.pdf?utm_medium=email&utm_source=govdelivery
- Link to PPP Loan Forgiveness Application Form 3508
https://content.sba.gov/sites/default/files/2020-06/PPP%20Loan%20Forgiveness%20Application%20%28Revised%206.16.2020%29.pdf?utm_medium=email&utm_source=govdelivery
- Link to PPP Form 3509
<https://nmcndn.io/e186d21f8c7946a19faed23c3da2foda/2198139c60484547ac05dbaa326cedbb/files/SBA-Form-3509.pdf>

Sincerely,



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CC: Steven Kang, CPA



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