

Application Steps (Form 3508)

Step 1: Gather Documents that Relate to Forgiveness – Borrower must maintain these documents for 6 years after date the loan is forgiven or paid in full.

Step 2: Identify who Belongs in Table 1 and Table 2, and any Owner-Employees.

Table 1 will include employees who were employed by the borrower at any point during the covered period whose principal place of residence is in the U.S. **AND** received compensation at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed at any point in 2019.

Table 2 will include employees who were employed by the borrower at any point during the covered period whose principal place of residence is in the U.S. **AND** received compensation at an annualized rate of more than \$100,000 for any pay period in 2019.

Step 3: Calculate FTE Reduction and Safe Harbor – If borrower's business has a reduction in FTEs, PPP loan forgiveness may be reduced. The safe harbor allows for an exemption from the impact of short-term decreases in FTE.

The average FTE is needed for each employee and will be entered in Table 1 and Table 2 in the next step. To determine the average FTE calculation during the covered period use the following equation: **Average number of hours paid per week ÷ 40, rounded to the nearest tenth**. Each employee is capped at 1.0. Borrower may also use a simplified calculation where employees with fewer than 40 hours are assigned 0.5 and employees with 40 or more hours are assigned 1.0. Borrower should use whichever calculation works most to its advantage.

When calculating FTE reduction, borrower may choose to use either February 15, 2019 through June 30, 2019, or January 1, 2020 through February 29, 2020 as the reference period. Seasonal employers may use any consecutive 12-week period between May 1, 2019 and September 15, 2019 as the reference period. Borrower should choose whichever reference period works most in its favor. When the borrower compares the reference period to the covered period, if there was a decrease during the covered period of FTEs, loan forgiveness amount will be reduced.

The application allows FTE reduction exceptions for individual employees where borrower offers to rehire employee, borrower offers to restore hours reduction of employee, employee fired for cause, employee voluntarily resigned, or employee voluntarily requested reduction in hours.

Two separate safe harbors exempt certain borrowers from any loan forgiveness reduction based on a reduction in FTE employee level. Borrowers are exempt from FTE if either of the following apply:

- Borrower, in good faith, is able to document that it was unable to operate due to compliance with requirements established or guidance issued by the Secretary of Health and Human Services, the CDC, or OSHA.
- Both the following conditions are met: (a) the Borrower reduced its FTE employee levels in a period beginning February 15, 2020 and ending April 26, 2020; and (b) the Borrower then restored its FTE employee levels by not later than December 31, 2020 to its FTE levels in the Borrower's pay period that included February 15, 2020.

Step 4: Fill Out Table 1 and 2: Employee Tables

Table 1 must include an employee identifier, cash compensation amount, average FTE, and salary/hourly wage reduction for each employee. There is also a place to list any FTE reduction exceptions. If an employee had their pay reduced by more than 25%, then the forgivable portion of the loan is reduced for the employer. Where reduction does not apply, employer will put a 0 in Table 1 for the employee. To determine FTE reduction for each employee, borrower should follow the three steps below.

Step 1: Determine if pay was reduced more than 25%.

a. Enter average annual salary or hourly wage during Covered Period or Alternative Payroll Covered Period: _____

b. Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020: _____

c. Divide the value entered in 1.a. by 1.b.: _____

If the quotient in 1.c. is 0.75 or more, enter zero in the column above box 3 for that employee; otherwise proceed to Step 2.

Step 2.: Determine if the Salary/Hourly Wage Reduction Safe Harbor is met.

a. Enter the annual salary or hourly wage as of February 15, 2020:
_____.

b. Enter the average annual salary or hourly wage between February 15, 2020 and April 26, 2020: _____.

If 2.b. is equal to or greater than 2.a., skip to Step 3. Otherwise, proceed to 2.c.

c. Enter the average annual salary or hourly wage as of June 30, 2020:
_____.

If 2.c. is equal to or greater than 2.a., the Salary/Hourly Wage Reduction Safe Harbor has been met – enter zero in the column above box 3 for that employee. Otherwise proceed to Step 3.

Step 3. Determine the Salary/Hourly Wage Reduction.

a. Multiply the amount entered in 1.b. by 0.75: _____

b. Subtract the amount entered in 1.a. from 3.a.: _____ .

If the employee is an **hourly worker**, compute the total dollar amount of the reduction that exceeds 25% as follows:

c. Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020: _____

d. Multiply the amount entered in 3.b. by the amount entered in 3.c.
_____. Multiply this amount by 8: _____. Enter this value in the column above box 3 for that employee.

If the employee is a **salaried worker**, compute the total dollar amount of the reduction that exceeds 25% as follows:

e. Multiply the amount entered in 3.b. by 8: _____. Divide this amount by 52: _____. Enter this value in the column above box 3 for that employee.

Table 2 must include an employee identifier, cash compensation amount, and average FTE for each employee. There is no salary/hourly wage reduction in table 2. The reduction only applies to those making \$100,000 or less.

Step 5: Complete PPP Schedule A

Line 1-5: These lines will be populated with values from Table 1 & 2.

Lines 6-8: These lines include costs related to payroll including health insurance, retirement, and state & local taxes (including unemployment).

Line 9: This line lists the cash compensation paid to owners. Noncash compensation of owners should be included in lines 6-8.

Line 10: Total payroll cost will be entered here.

Lines 11-13: FTE reduction quotient calculation will be entered here.

Step 6: Complete PPP loan forgiveness calculation form

Line 1: Payroll cost (same amount as Schedule A, line 10)

Line 2: Business Mortgage Interest Payment

Line 3: Business Rent or Lease Payments

Line 4: Business Utility Payments

Line 5: Total Salary Hourly Wage Reduction

Line 9: PPP Loan Amount

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

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

Step 7: Complete Demographic information form (optional)