

SBA – PAYCHECK PROTECTION PROGRAM (PPP) LOANS

UPDATE #4 - June 23, 2020¹

This UPDATE is intended for Parishes that received an SBA PPP loan.
If a Parish did not receive an SBA PPP loan, this FAQ should be disregarded.

UPDATE #4: See changes to Q ##6, 10, 11, 12, 15, 20, 21; see new Q ##24

Changes from the June 19 update are denoted as crossed out ~~deletions~~ or underlined new/modified information.

FAQ's

1. Q: The Parish received PPP loan money. Will the Parish need to pay it back?

A: The loan may be forgiven if the Parish meets the criteria for loan forgiveness. (See Q #11 & Q #12, below). Any amount of the loan that is not forgiven must be repaid over a period not to exceed 2-years for existing loans issued before June 5, and 5-years for loans issued after June 5. Parishes with existing PPP loans can extend the repayment period to 5 years upon agreement of the lender. There are no prepayment penalties; interest accrues at 1%.

2. Q: Must the Parish use its PPP money by June 30?

A: No. The period of use is determined by the loan disbursement date. Parishes have a choice between using the PPP funds over 8 weeks or 24 weeks (56 or 168 days) or until December 31, 2020 (the **Covered Period**). Parishes may also choose to start the Covered Period from the date the money was received, **OR** use an **Alternative Payroll Covered Period** (see further discussion, below). The 24-week period will extend past June 30 per the actual loan disbursement date. (see Q #20)

3. Q: How do I record the PPP loan?

A: PPP funds are a loan; parishes should therefore record the PPP loan monies as **debt**. Further, per a determination from a Parish's lender (bank/credit union), any amount of PPP loan that is forgiven will need to be recorded as **Grant Income** in either the Church or Administration Department, and the Parish will write down/off the loan (reminder: Grant Income is not assessable).

4. Q: Does the Parish need to open a separate bank account to hold the PPP loan money? Or does the Parish need to hold the PPP loan money in a restricted account?

A: Neither approach is required. If the Parish puts the PPP money in a separate account and then transfers those funds to the Parish's operating account to pay payroll or utilities, that is an easy way to track the use of funds. However, using a separate account is not required. These are general monies of the Parish that must be used for their intended purpose: to pay payroll, rent and utilities.

¹ **The rules surrounding the SBA PPP loan program are fluid and continue to be updated.** The information in this June 23 FAQ (QQ #1-#24) has been developed based on the information available as of June 23 and includes the Paycheck Protection Plan Flexibility Act signed into law on June 5 and the interim guidance issued by the Dep't of Treasury on June 22. The information has been accumulated from SBA guidance itself, and from a variety of sources interpreting SBA PPP loan rules in their current state. We will keep you posted on changes to the PPP loans once they are available. If you have any questions, please don't hesitate to contact Ernie Armstrong, ernie.armstrong@archden.org, 303-715-3120.

5. Q: If the Parish puts the PPP loan money in a savings account, but uses the checking accounting to pay payroll, then the Parish still hasn't used the PPP loan money, correct?

A: No, remember money is fungible. We do not track money as a physical asset. For example, if the PPP loan money sits in a savings account, and all the payroll is paid from the operating account, it does not matter. The **documentation supporting the expenses paid from the operating account** is enough to show that the Parish used the PPP loan money for its approved purpose.

6. Q: What if the Parish does not have expenses during the 8-week loan period to equal the PPP loan money since the PPP loan was calculated at 2 ½ months of payroll?

A: Each Parish should be able to utilize enough payrolls within the 24-week period to use all PPP loan money for payroll. Remember that PPP loan funds can be used for Gross Payroll (though not used for any amount paid to an individual (prorated) that is compensated at a rate greater than \$100,000), the Employer portion of medical premiums, pension costs, rent and utilities. If the Parish cannot use all the PPP loan money, it can pay it back or use it to compensate employees. Specifically, Parishes could rehire employees that were furloughed or laid off. If a Parish decides to rehire an employee, that action must take place before December 31. It may be permissible to pay bonuses, though the Parish must carefully document why a Parish deems a bonus "necessary to support the ongoing operations". Payroll expenses can be included if they were **paid or incurred** during the 8- or 24-week period. This should solve the issue of having two payroll cycles, one for salaried and one for hourly employees.

7. Q: Typically, the Parish makes its required contributions to the AoD Lay Money Purchase Pension Plan (Lay Retirement) at the end of each fiscal quarter. Can the Parish pay Lay Retirement contributions and count that as using PPP loan funds?

A: The amount of Lay Retirement contributions owed by the Parish accrues after each payroll. Therefore, the Parish has a liability and owes the 6% Lay Retirement contribution amount for qualifying individuals after each payroll regardless of actual remittance timing. The fact that the internal required practice is to pay Lay Retirement contributions at the end of the quarter does not change this obligation. For PPP purposes, the Parish can pay Lay Retirement contributions that accrue during the 8 or 24-week period. Therefore, before the 8 or 24-week period expires, the Parish should pay the amount of Lay Retirement that accrued during the 8 or 24-week period. Any Lay Retirement obligation that accrued before or after the 8 or 24-week period should be paid separately. If a Parish needs assistance with running the Lay Retirement pension report with accrued contributions, it should contact Edwin Rey at edwin.rey@archden.org.

8. Q: What is included in 'utilities'?

A: Payments for electricity, gas, water, telephone, transportation (gas for business vehicles) and internet access qualify as utilities. Parishes should include and keep track of payments for these items. See Q#15.

9. Q: How should the Parish document use of its PPP loan?

A: The Parish's PPP loan lender (bank /credit union) will provide its respective requirements for documentation correlating to the amount of loan forgiveness requested. However, Parishes should collect copies of payroll registers, invoices or bills paid, schedules that explain the employer portion of health insurance, and/or Lay Retirement paid, in order to be ready to meet any documentation request. ~~It is recommended that Parishes use the spreadsheet issued with this FAQ to track expenses.~~

10. Q: What is an Alternative Payroll Covered Period?

A: The SBA issued an option for determining when the Covered Period starts. Parishes may now choose to begin the 8- or 24-week period on the day the next payroll period begins. For example, if a Parish received the PPP funds on April 20 (the next pay date was April 24), the Parish can choose to use the *Alternative Payroll Covered Period* beginning April 25. The reason for this is that in the biweekly payroll process, the next payroll period was April 26 – May 9, with the pay date of May 8. Therefore, the Parish would use the PPP loan monies for the pay

dates of May 8, May 22, June 5 and every 2 weeks thereafter until the 8 or 24-week period expires, or the parish reaches December 31, whichever comes first. See Q#6 re: **paid or incurred**.

11. Q: How much of the Parish's PPP loan will be forgiven?

A: The amount of forgiveness will depend on the amount spent on payroll, the amount of employee salary reductions (if any) and the number of FTE (Full Time Equivalent) employees as compared to the pre COVID-19 period. For loan forgiveness, the amount used for payroll (remember the broad definition of payroll) **must also be equal to at least 60% of the PPP loan**. See Q #12. If a Parish spends less than 60% on payroll, a portion of the loan ~~may~~ will still qualify for debt forgiveness. The amount of loan forgiveness sought and approved must be calculated and documented by each individual Parish. For example, it may be determined that a portion of the loan will be forgiven, leaving a balance owed. If, for example, it is determined that 80% of the loan will be forgiven, the Parish will nonetheless have to repay 20% of the loan within 2 or 5 years (see Q#1) while accruing interest at 1%.

12. Q: How can I calculate the amount of potential loan forgiveness?

A: On June 16, 2020, the SBA issued two new forms: (1) a new simplified Form 3508 Loan Forgiveness Form; and (2) a new Form 3508EZ Loan Forgiveness Form.² Both forms include a calculation to determine any reduction of FTEs (Full Time Equivalent Employees). Both forms **ALSO** include a safe harbor provision that allows parishes to avoid the FTE Loan Forgiveness Reduction ("The FTE Calc") calculation:

"The Borrower was unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19."

~~While the listed governmental agencies did not issue specific requirements for houses of worship, they did issue guidance. The CDC guidance clearly indicates and requires compliance with State and local government and health agency Covid 19 requirements. "Event planners and officials can determine, in collaboration with state and local health officials, whether and how to implement these considerations, making adjustments to meet the unique needs and circumstances of the local community. Because COVID-19 virus circulation varies in communities, these considerations are meant to supplement—not replace—any state, local, territorial, or tribal health and safety laws, rules, and regulations with which gatherings must comply." CDC Interim Covid-19 guidance, Considerations for Events and Gatherings.~~

FTE Calc Exemption: The Department of Treasury issued a clarification on June 22nd explaining that if a local gov't entity restricted the business operation of an entity as a result of guidance from the Federal agencies noted above, then the entity qualifies for exemption from the FTE Calc. Parishes should qualify for the exemption from the FTE Calc as a result of Colorado Department of Public Health and Environment's Public Health Order 20-23 issued March 18,2020 (attached to this FAQ #4). Public Health order 20-23 refers to guidance issued by the Centers for

² (Be aware that the banks, lenders and others continue to lobby the SBA and Congress to clarify and simplify the loan forgiveness process. Therefore, the loan forgiveness forms discussed below **are expected to change** or gain further clarification in the future.) Ultimately your bank or lender will provide you with the forms needed to apply for loan forgiveness.

Disease Control and the White House and restricts gatherings of more than 10 people for events including faith-based events.

EZ-3508 Loan Forgiveness Form: To qualify to use this form, parishes must not have reduced any employees' payroll by greater than 25%. "The Borrower did not reduce salaries or hourly wages by more than 25 percent for any employee during the Covered Period or Alternative Payroll Covered Period compared to the period between January 1, 2020 and March 31, 2020. For purposes of this certification, the term "employee" includes only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000."

3508 Loan Forgiveness Form: Parishes that do not qualify for the EZ3508 form will use Form 3508 to determine the amount of loan forgiveness. Parishes will have to determine the amount of salary or hourly wage reductions of employees (Line 5). This is a dollar for dollar reduction in the amount of loan forgiveness for every dollar of wage reduction in excess of 25% of each employees' average wages.

13. Q: If any portion of the loan is not forgiven, should the Parish nonetheless endeavor to pay the loan off as quickly as possible?

A: Yes. Early SBA guidance indicated that once a loan is either forgiven/paid off, the question of a faith-based entity having received "federal financial assistance" (FFA) ceases. FFA is a topic which translates into an assessment of whether a faith-based entity would become subject to federal laws/requirements it would object to and/or might otherwise not be subjected to in the first place. This is still a topic that may be developed further, but at present, it is advisable to pursue forgiveness / repayment as soon as possible.

14. Q: What is included in health care costs?

A: The interim SBA rules includes the following in its definition of payroll costs: ". . . for the provision of employee benefits consisting of group health care coverage, including insurance premiums." While no further guidance has been issued, we are hopeful (and it appears reasonable) that dental and vision insurance premiums would be included.

15. Q: What are eligible nonpayroll costs?

A: An eligible nonpayroll cost must be paid during the Covered Period (see previous questions for discussion of the applicable Covered Period) or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period. Eligible nonpayroll costs cannot exceed 40% of the total forgiveness amount. Count nonpayroll costs that were both paid and incurred only once.

Entities can prorate nonpayroll costs that were incurred but not paid provided they are paid before the next billing cycle. For example, if the Covered Period ends on July 15, and the entity included the June utility bill that was paid on July 1, the entity can also prorate the July utility bill that is paid on August 1 and include it in the nonpayroll costs.

Nonpayroll costs eligible for forgiveness consist of MORTGAGE³, RENT OR UTILITY payments.

-MORTGAGE OBLIGATIONS: payments of interest (not including any prepayment or payment of principal) on any business mortgage obligation on real or personal property incurred before February 15, 2020 ("business mortgage interest payments");

³ Use of PPP loan monies is not advisable for real property obligations in a religious school context.

(I.) A “covered mortgage” is defined as (1) a **debt obligation** that (2) is an **obligation** of the borrower, (3) includes a related **mortgage** on real or personal property, and (4) was entered into before February 15, 2020.

(II.) Interest payments by Parishes to the Irrevocable Revolving Fund Trust **do not** qualify as a covered mortgage obligation.

-RENT OBLIGATIONS⁴: business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020 (“business rent or lease payments”) See Q#17; and

-UTILITY PAYMENTS: see Q #8.

16. Q: What is the difference between the terms “8 or 24-week period”, “Alternative Payroll Covered Period”, and “Covered Period.”

A: The Covered Period is synonymous with the 8 or 24-week period. The Covered Period begins when the funds are disbursed. The Covered Period *must be* used for calculating the use of PPP Loan funds for NONPAYROLL costs. Parishes may use the Alternative Payroll Covered Period for PAYROLL costs only.

17. Q: Can a Parish include the cost of office equipment leases in the nonpayroll expenses for loan forgiveness?

A: Yes. Leases for personal property can be included in nonpayroll costs. Lease payments for copiers, postage machines and other equipment are included in nonpayroll costs. See Q #15.

18. Q: How long does the Parish need to keep documentation supporting the PPP loan.

A: Parishes need to keep all documentation supporting the loan request and loan forgiveness for 6 years after the loan is forgiven or paid in full.

19. Q: Do I have to restore my workforce to pre-pandemic levels to earn 100% debt forgiveness?

A: Yes. See Q #11. The amount of loan forgiveness will be reduced if a Parish reduced FTEs or employee wages by certain percentages. Parishes may restore their workforce to pre-pandemic levels by December 31. However, there are three exceptions

FTE Exceptions:

- a. Parishes can exclude employees from their FTE calculation who turned down good faith rehire offers. If a Parish intends to use this exception, it must document the offer and refusal in writing.
- b. Parishes can adjust their FTE count if it was unable to find qualified employees or was unable to restore its operations to pre-pandemic levels due to government imposed operating restrictions.
- c. The Parish was unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with Covid-19 restrictions and requirements. See Q #12

20. Q: The modifications passed by Congress on June 3rd allow parishes to use the 24-week period or the 8-week period. Why would any organizations choose the 8-week period?

A: The most important reason to consider keeping the 8-week period is that the FTE measurement extends through the Covered Period, either 8 or 24 weeks. While 24 weeks allows the Parish a longer period to use the PPP loan funds, it must maintain its FTE’s ([see Q #12, FTE Calc exemption](#)) over this same period. In addition, the

⁴ Use of PPP loan monies is not advisable for real property obligations in a religious school context.

measurement of a reduction in employee wages *may* also extend over the 8- or 24-week Covered Period. See Q#21.

The 24-week period allows the parishes a longer period and more payrolls to use the PPP loan funds. The 24-week period also allows parishes a longer period to restore FTE's that were released or furloughed and to restore employee wages that were reduced. Using at least 60% of the PPP funds for payroll and maintaining FTE's and wages at pre-pandemic levels increases the possibility of 100% loan forgiveness.

21. Q: Can a Parish apply for loan forgiveness at the end of the 8-week period or before the end of the 24-week period?

A: YES. If a parish can use all the PPP loan proceeds within the 8 week period, it can apply for loan forgiveness. Once a Parish has used all PPP loan proceeds, it can apply to its lender for loan forgiveness. ~~If a parish chooses the 24-week period, it appears the loan forgiveness application allows entities to apply for loan forgiveness before the end of the 24-week period, but more guidance is needed.~~ However, if a Parish reduced employee wages greater than 25% during the Covered Period, it must account for the excess (greater than 25%) reduction as part of the loan forgiveness reduction calculation throughout the full 8- or 24-week period. If a Parish uses all the PPP loan funds it should talk to its lender to try and apply for loan forgiveness before the end of the 24-week period. The Parish must apply for loan forgiveness with 10 months of the end of the Covered Period.

22. Q: Should I use the AICPA Loan Forgiveness Calculator previously issued to determine loan forgiveness?

A. No. The AICPA Loan Forgiveness Calculator issued by the Office of Parish Finance previously is now out of date. The AICPA hopes to issue an updated loan forgiveness calculator sometime between June 24 – July 3.

23. Q: The rules continue to change. What should I do now to prepare for loan forgiveness?

A. The SBA is continuing to modify and clarify the rules. Fortunately, the rule changes have made the process simpler and the potential for loan forgiveness greater. Continue to collect documents demonstrating the use of the PPP loan proceeds including payroll registers and invoices paid for health insurance, utilities and any non-payroll expenses. You can also collect information on the average amount paid for each employee from January 1, 2020– March 30, 2020. You will need the list of employees and average amount paid for the loan forgiveness application.

24. Q: How long can it take for the loan to be forgiven?

A. Lenders have 60 days to review a loan forgiveness application and required documents and make a loan forgiveness determination, submit it to the SBA and request loan payment. If the lender cannot make a loan forgiveness decision based on the information provided, it must work with the Borrower to clarify the application and documentations. Upon receipt of the loan forgiveness decision from the lender, the SBA, subject to its review, has 90 days to make a loan forgiveness determination and fund the loan. Once the monies have been received by the lender from the SBA, the lender will notify the borrower.