

# Applying for PPP Loan Forgiveness

Step-by-step instructions to apply for Paycheck  
Protection Program loan forgiveness using the  
3508S form

**By**

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On October 7, 2020, the Small Business Administration issued a new rule for PPP loan borrowers who received \$50,000 or less in proceeds.

That new rule says borrowers can receive full forgiveness of their loan regardless of changes in employee headcounts or pay rates. The only real requirements? Borrowers must make representations about how they handled their PPP loans. And borrowers must back up their spending with documentation.

Most PPP borrowers get to use the new simplified approach. And if you can use the simplified approach, because your loan amount equals \$50,000 or less, you want to use it. And apply now.

The simplified approach makes applying for forgiveness easy. And it should result in quicker forgiveness. But let's walk through the steps.

## Completing the 3508S Application

The one-page 3508S forgiveness application (downloadable as a [pdf here](#)) requires about a minute to complete. You only need the original PPP loan paperwork (since it provides the loan date, number and amount.)

The figure below shows an example of the top part of the form which you use to provide contact information:

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Harry's Pool Service			
Business Address		Business TIN (EIN, SSN)	Business Phone
123 Indian Palms Indio CA 92201		123-45-6789	(760) 555-5555
		Primary Contact	E-mail Address
		Harry	harry@poolfool.com

SBA PPP Loan Number: 1234567890      Lender PPP Loan Number: 1234567890

PPP Loan Amount: 50000      PPP Loan Disbursement Date: 5/1/2020

Employees at Time of Loan Application: 3      Employees at Time of Forgiveness Application: 3

EIDL Advance Amount: \_\_\_\_\_      EIDL Application Number: \_\_\_\_\_

Forgiveness Amount: 50000

To complete this part of 3508S loan application, a borrower takes the following steps:

**1. Identify the borrower.**

Provide the business' legal name, any "Doing Business As" or trade name, and then the address, the taxpayer identification number, and the contact information including a phone number, contact name, and email address.

**2. Identify and describe the loan.**

Provide the SBA PPP loan number (this number appears on the loan documents), and Lender PPP loan number, as well as the PPP loan amount and the PPP loan disbursement date.

**3. Provide the number of employees at the time of the loan application and at the time of the forgiveness application.**

Count employees as workers receiving W-2s. And note that a sole proprietor without employees enters zeros in both fields.

**4. Describe any EIDL Advance.**

If the borrower obtained an EIDL advance, provide the amount and the EIDL application number.

**5. Specify the forgiveness amount requested.**

If you correctly calculated the original PPP loan amount and spent those funds on forgivable costs, you should get full forgiveness.

You also need to make a series of representations and certifications. In a nutshell? You indicate you used the PPP loan proceeds correctly. So at least 60 percent for payroll costs. No more than \$20,833 for each owner's payroll. And then for any nonpayroll spending? Legitimate categories including rent on space or equipment, interest on business loans, and then utilities.

**Tip:** For nonpayroll spending, the borrower also needed to be obligated for the interest, rent or utilities prior to February 15, 2020.

The next image shows the part of the application that asks the borrower to make these representations and certifications: But note that all you need to do to complete this part of the PPP loan forgiveness application is initial each representation and certification.

For example, to indicate that you're requesting the appropriate forgiveness amount, initial the first box. Then read and initial each of the other boxes. In the figure below, each representation and certification is initialed with the letters "HT."

<b><u>By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:</u></b>	
The Authorized Representative of the Borrower certifies to all of the below by <b>initialing</b> next to each one.	
HT	The dollar amount for which forgiveness is requested does not exceed the principal amount of the PPP loan and: <ul style="list-style-type: none"><li>• was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);</li><li>• includes payroll costs equal to at least 60% of the forgiveness amount;</li><li>• if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and</li><li>• if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.</li></ul>
HT	I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
HT	The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness, and has accurately calculated the forgiveness amount requested.
HT	I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
HT	The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
HT	The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
HT	I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.

After initializing the representations and certifications, only two steps remain.

The borrower needs to sign the forgiveness application using the signature block at the bottom of the form (see image below).

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.	
Signature of Authorized Representative of Borrower	11/1/2020
Harry Truman	Date
Print Name	Proprietor
	Title

And then, second, the borrower assembles the documentation that proves the PPP loan money went for forgivable spending.

**Note:** The 3508S form includes a second page (not shown) which asks a borrower to indicate whether the owner is a veteran and to report on the gender, race, and ethnicity of the owner. You don't have to provide this information.

## Documentation for Single Worker Sole Proprietor Situations

For roughly half of 3508S applications filed—those with just a working owner and no one else—the forgiveness application documentation should be incredibly easy to supply.

**If a borrower operated a sole proprietorship and employed no W-2 workers, the forgiveness application only needs to include documentation showing the borrower paid out the loan to the proprietor.**

For example, say a borrower's 2019 Schedule C tax form shows the borrower earned \$48,000 in 2019. This profit amount equates to monthly equivalent payroll of \$4,000 because \$48,000 divided by 12 months equals \$4,000.

This borrower should have received a \$10,000 PPP loan. The PPP loan formula multiplies the average monthly payroll by 2.5 to calculate the loan amount.

In this case, the borrower only needs to provide documentation showing that over the 24 weeks following receipt of the loan, it paid out \$10,000 to the owner. For example, ten \$1,000 checks paid to the proprietor work. So do ten \$1,000 electronic remittances.

You get the idea. To document the \$10,000 of spending, the forgiveness application includes cancelled checks or bank remittances or other documentation that shows \$10,000 of payments.

## Documentation in Complicated Situations

In more complicated situations, a borrower goes to more work to assemble the documentation.

But you want to keep four simplifying principles in mind. You want to

- Document enough forgivable spending to get full forgiveness. In other words, if you need \$50,000 of forgiveness, you need \$50,000 of documentation.
- Show at least 60 percent of the spending went toward payroll costs, including salaries, wages, state payroll taxes, group health insurance, and retirement benefits.
- Work from the easiest to gather documentation you can—which is probably any payroll reports prepared by a third-party payroll service.
- Document both the payment and the reason for a payment for nonpayroll costs. For example, if you want forgiveness for paying rent, you need both a check to the landlord (to show the rent payment) and the rental agreement (to show the reason).

And two bits of good news here.

First, borrowers should find it easy to accumulate enough spending to receive full forgiveness. The PPP loan formula provided borrowers with roughly ten weeks of payroll. Yet, a borrower can look at spending over 24 weeks.

Second, while a borrower received money to pay roughly 10 weeks of payroll through the PPP loan, the forgiveness formula allows a borrower to also get forgiveness for nonpayroll costs. The formula limits forgiveness for nonpayroll costs (rent, utilities and interest) to 40 percent of less of the loan.

## Assembling Documentation for the 3508S Application

To document spending on payroll, a borrower needs documentation that provides both its cash compensation and non-cash compensation payments during the 24 week “spending window” that follows the borrower receiving the loan.

The 3508S instructions say this documentation might include for payroll spending:

- a. Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
- b. 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:

- i. Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
  - ii. State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- c. Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount.

And then those same instructions say that for nonpayroll spending, the following documentation works to verify that an obligation or service existed before February 15, 2020 and that eligible payments were made:

- a. Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
- b. Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
- c. Business utility payments: Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments

The PPP program also requires a borrower to maintain, but not submit, additional information. Again, I'm going to quote the language the 3508S form instructions:

All records relating to the Borrower's PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower's certifications as to its eligibility for a PPP loan, documentation necessary to support the Borrower's loan forgiveness application, and documentation demonstrating the Borrower's material compliance with PPP requirements. The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

## **Submitting Form 3508S Forgiveness Application**

To receive forgiveness, a borrower submits the completed 3508S loan forgiveness application (or an online equivalent) and any required documentation to the PPP lender.

The rules say the lender will “review the application and make a decision regarding loan forgiveness” and then within “60 days from receipt of a complete application” communicate that decision to SBA.

Assuming the lender decides the PPP borrower deserves forgiveness, as part of this decision to forgive, the lender then requests payment of the loan balance plus any accrued interest. The SBA then looks at the loan, presumably in most cases rubberstamps the lender’s forgiveness decision, and then remits “the appropriate forgiveness amount to the lender, plus any interest accrued through the date of payment, not later than 90 days after the lender issues its decision to SBA.”

For the hopefully small handful of cases where the forgiveness step gets bungled by the borrower, the borrower of course loses some or all loan forgiveness. In this unhappy event, a lender alerts the borrower about the loss or partial loss of forgiveness and “the borrower must begin paying principal and interest.”

One other wrinkle: If a borrower fails to apply for forgiveness within 10 months after the covered period ends, “the PPP loan is no longer deferred and the borrower must begin paying principal and interest.”