

Form 3508 Documentation

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FirstBank is providing this general information as a courtesy to assist you in requesting forgiveness from the SBA for your loan and should not be construed as tax or legal advice. You should consult with your CPA, tax advisor, financial advisor or attorney for tax and legal guidance related to your specific circumstances.



Form 3508 Definitions

Definitions

Terminology	Definition	Definition does NOT include	Notes	Application Section		
				Schedule A Worksheet	Schedule A	Loan Forgiveness Calculation Form
PPP Loan Disbursement Date	<ul style="list-style-type: none"> Date you received PPP funds from FirstBank 		<ul style="list-style-type: none"> If you received multiple advances on the same loan, enter the 1st date you received PPP loan funds 		All	
Covered Period (CP)	<ul style="list-style-type: none"> The Covered Period begins on the date the loan was originally disbursed. It ends on a date selected by the Borrower that is at least 8 weeks following the date of loan disbursement and not more than 24 weeks after the date of loan disbursement. 	<ul style="list-style-type: none"> 1st date is NOT when loan was approved or the date you received loan documents to sign 			All	
Employee (EE)	<ul style="list-style-type: none"> Will receive a W-2 (salary or hourly, full-time or part-time with a consistent schedule) for the CP or APCP Principal place of residence is in the U.S. Must have tax ID number 	<ul style="list-style-type: none"> Self-employed (independent contractors, sole proprietors) Owner-EEs Partners 	<ul style="list-style-type: none"> Anyone with a 1099 is considered its own business under PPP and can apply for its own PPP loan 	Table 1 & 2	N/A	Top

Definitions

Terminology	Definition	Definition does NOT include	Notes	Application Section		
				Schedule A Worksheet	Schedule A	Loan Forgiveness Calculation Form
Payroll Costs Eligible for Forgiveness	<p>Total paid to each EE by you:</p> <ol style="list-style-type: none"> Cash Compensation: <ul style="list-style-type: none"> Gross salary, wage, commission, and similar compensation (including bonus) Payment of cash tip or equivalent Payment for paid leave (vacation PTO, parental, family, medical, or sick) Allowance for dismissal or separation Make-whole payments to furloughed EE Benefits <ul style="list-style-type: none"> Payment for benefits (group healthcare/ dental/vision benefits including insurance premiums) Employer retirement plan contribution Payment of state or local tax assessed on compensation of EE <p>For non-EE (owner-employees, self-employed, or general partners) up to \$20,833 or 2.5 months of net profit, or Prorated for the Covered Period being used</p>	<ul style="list-style-type: none"> Cash compensation in excess of annualized \$100K - thus cap per EE is \$46,154 (\$100K / 52 weeks x 24-week) Qualified sick and family leave wages under FFCRA* Your (employer) share of federal taxes on compensation (e.g., FICA) Payments to independent contractors (1099) Limitations on expenses for owner compensation can be found on the following pages 	<ul style="list-style-type: none"> ≥60% of total loan forgiveness must be Payroll Costs Count ONLY ONCE any cost that was both incurred and paid Payroll Costs are eligible if they were: <ul style="list-style-type: none"> Incurred (day that EE worked) during CP/APCP and paid (day the paycheck is distributed or the day you originate an ACH credit transaction*) during CP/APCP Incurred during CP/APCP and paid by your next regular payroll date after CP/APCP) Incurred one* pay period before CP/APCP and paid during CP/APCP 	Table 1 & 2 (Cash Compensation)	Line 1 & 4 (Cash Compensation) Line 6 – 9: other	Line 1

*FFCRA: Families First Coronavirus Response Act, Section 7001

Definitions

Terminology	Definition	Definition does NOT include	Notes	Application Section		
				Schedule A Worksheet	Schedule A	Loan Forgiveness Calculation Form
Nonpayroll Costs Eligible for Forgiveness	<ol style="list-style-type: none"> 1. Business mortgage INTEREST only on any mortgage signed before Feb 15, 2020 2. Business rent or lease payments (includes personal property lease such as leased equipment) on any rental/lease agreement in place before Feb 15, 2020 3. Business utilities (electricity, gas, water, transportation, telephone, or internet access) on any service that began before Feb 15, 2020 4. Covered operations expenditures paid or incurred during the Covered Period. 5. Covered property damage costs paid or incurred during the Covered Period. 6. Covered supplier costs paid or incurred during the Covered Period pursuant to a contract, order, or purchase order in effect prior to the beginning of the Covered Period. 7. Covered worker protection expenditures paid or incurred during the Covered Period. 	<ul style="list-style-type: none"> • Mortgage: excludes prepayment of interest or payment of principal. 	<ul style="list-style-type: none"> • Up to 40% of total loan forgiveness may be Nonpayroll Costs • Count ONLY ONCE any cost that was both incurred and paid • Nonpayroll Costs are eligible if they were: <ul style="list-style-type: none"> • Incurred during CP and paid during CP • Incurred during CP and paid by your next regular billing date after CP • Owed in arrears before CP and paid during CP 	N/A	N/A	Lines 2 – 8

Definitions – Owner Compensation

Owners compensation is calculated separately from payroll costs. For compensation related to sole proprietorships and general partners, please reference the next page and combine those figures with any eligible payroll or non-payroll costs if the business is also an employer. C-Corporations and S-Corporations treat owner's compensation more like that of a traditional employee with some limitations. For borrowers that are LLCs, the owners must determine how they are organized for tax filing purposes for the tax year 2019 (partnership, sole proprietorship, etc.).

C Corporation owner-employee limitation: The eligible compensation to a C-Corporation owner-employee, is limited to 2.5/12 of their 2019 employee cash compensation. Expenses related to the owner-employee for state and local taxes assessed on their compensation, for the amounts contributed to their employee health insurance, and for employer retirement contributions (capped at 2.5/12 of the 2019 employer retirement contribution) are all eligible amounts to include in the forgiveness calculation.

S Corporation owner-employee limitation: The compensation to a S-Corporation owner-employee, is limited to 2.5/12 of their 2019 employee cash compensation. Expenses related to the owner-employee for state and local taxes assessed on their compensation and for employer retirement contributions (capped at 2.5/12 of the 2019 employer retirement contribution) are eligible amounts to include in the forgiveness calculation. Employer contributions to their employee health insurance are not eligible for additional forgiveness for S-corporation owner-employees with at least a 2% stake in the business, including for employees who are family members of an at least 2% owner because those amounts are included in cash compensation.

Definitions – Owner Compensation

The forgiveness calculations related owner compensation for sole proprietorships and general partners are determined differently than that of traditional employees. These amounts are based on the net earnings generated by the business.

Sole Proprietorships compensation amount: The compensation to a sole proprietorship owner is limited to the lesser of \$20,833 or 2.5/12 of their 2019 net profit. Expenses related to their health insurance and for retirement contributions are not eligible amounts to include in the forgiveness calculation.

General Partner compensation amount: The compensation to general partners in a partnership is limited to the lesser of \$20,833 or 2.5/12 of the 2019 net earnings from self-employment that is subject to self-employment tax, which is computed from 2019 IRS Form 1065 Schedule K-1 box 14a (reduced by box 12 section 179 expense deduction, unreimbursed partnership expenses deducted on their IRS Form 1040 Schedule SE, and depletion claimed on oil and gas properties) multiplied by 0.9235. Expenses related to their health insurance and for retirement contributions are not eligible amounts to include in the forgiveness calculation.

Definitions

Terminology	Definition	Definition does NOT include	Notes	Application Section		
				Schedule A Worksheet	Schedule A	Loan Forgiveness Calculation Form
Avg FTE	<ul style="list-style-type: none"> Average Full-Time Equivalent (FTE) is the average # of hours paid per week divided by 40 (rounded to nearest tenth) Maximum per EE is capped at 1.0 (or, you may simplify and enter "1.0" for each EE who worked ≥40 hours, and "0.5" for each EE who worked <40 hours) 		<ul style="list-style-type: none"> Applies to CP / APCP References hours PAID not necessarily WORKED Although amounts paid to owners are eligible for forgiveness, owners are not included in FTE calculations 	Table 1 & 2	Line 2 & 5	N/A
Salary/Hourly Wage Reduction Safe Harbor (Calculation)	This calculation applies only if you reduced salary or hourly wages for any EE by >25% during CP/APCP (when compared to Jan 1, 2020 to Mar 31, 2020). If you restored salary/hourly wages, you can avoid the reduction to the forgivable amount.			Table 1	Line 3	N/A
FTE Reduction Exceptions	FTE count for both of the situations below are excluded from the FTE Reduction calculation: <ol style="list-style-type: none"> Any positions for which you made a good-faith, written offer to rehire an EE during CP/APCP which was rejected by that EE, and Any EEs who during CP/APCP were a) fired for cause, b) voluntarily resigned, or c) voluntarily requested and received a reduction of their hours Enter this total # only if the position(s) was not filled by a new EE		<ul style="list-style-type: none"> This helps minimize any reduction in forgivable loan amount 	Table 1	N/A	N/A
FTE Reduction Safe Harbor (Calculation)	You are exempt from the reduction in loan forgiveness based on FTE EE described in PPP Schedule A if both 1) you had reduced your FTE EE levels from Feb 15, 2020 to Apr 26, 2020; and 2) you then restored your FTE EE levels by Jun 30, 2020 to your FTE EE levels in your pay period that included Feb 15, 2020			Calculation	Line 11	N/A
FTE Reduction (Calculation)	Determines how much your forgivable amount should be reduced due to reduced staffing (headcount and/or payroll)			N/A	Line 11 – 13	N/A



Form 3508 Required Documentation

Documentation

- Intent of the Payroll Protection Program (PPP) loan is to assist in keeping employees paid during the COVID pandemic response and pay for a portion of other essential expenses as part of your business' long-term viability
- The purpose of the SBA PPP forgiveness application is to determine how much of your PPP loan is eligible for forgiveness
 - Amount of loan forgiveness is a calculation process based on guidance by SBA. You will submit your supporting documentation to FirstBank who will process the application and submit the information to the SBA.
 - After FirstBank has submitted your application to the SBA, the SBA may conduct an additional review of the application. If your application is approved, the SBA will send funds equal to the forgiveness amount to FirstBank to apply to your PPP loan.
 - Primary criteria for loan forgiveness are employee headcount and employee compensation: decreases in either could potentially decrease the amount of your loan forgiveness
- You must retain all documentation for 6 years after loan is forgiven or paid in full, and make available to the SBA upon request.

Form 3508 – Documentation for Employers

Documentation You Must Upload to FirstBank Application Portal

Payroll:

- a. Bank account statements or third-party payroll service provider reports documenting the amount of “cash compensation” paid to EEs.
- b. Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the CP or the APCP:
 - 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.
 - iii. Documentation supporting owner compensation if not included in payroll reporting (Schedule C for sole proprietorships and Schedule K-1 for general partners)
- c. Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that are included in the forgiveness amount.
- d. If you qualified for the EZ form based only on the second option (have employees and either rehired individuals or were unable to, but cannot document that you were unable to operate at full capacity due to compliance with COVID-related safety regulations), please also provide documentation of the number of full-time equivalent employees on payroll employed on January 1, 2020 and at the end of the CP.

FTE:

Documentation (payroll tax filings reported to IRS and state income and/or payroll and unemployment insurance filings) that shows Avg FTEs on your payroll per month during ONE of the following periods (you pick):

- a. February 15, 2019 – June 30, 2019, or
- b. January 1, 2020 – February 29, 2020, or
- c. If seasonal employer, (a), (b), or any consecutive 12-week period between May 1, 2019 and September 15, 2019.

Whether you pick (a), (b), or (c), it must be the same time period you select for PPP Schedule A, Line 11.

Documents may include payroll tax filings (Form 941) and state quarterly employee wage reporting and unemployment insurance tax filings. Documents submitted may cover periods longer than the specified time period.

Non-payroll:

Documentation that 1) verifying existence of the obligations/services prior to February 15, 2020 and 2) was paid during the CP, the APCP does not apply to these expenses:

- a. Business mortgage interest payments:
 - i. Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the CP; **or**
 - ii. Lender account statements from February 2020 and the months of the CP through one month after the end of the CP verifying interest amounts and eligible payments.
- b. Business rent or lease payments:
 - i. Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the CP; **or**
 - ii. Lessor account statements from February 2020 and from the CP through one month after the end of the CP verifying eligible payments.
- c. Business utility payments:
 - i. Copy of invoices from February 2020 and those paid during the CP and receipts, cancelled checks, **or** account statements verifying those eligible payments
- d. Covered operations costs:
 - a. Copy of invoices paid during the CP and receipts, cancelled checks, or account statements verifying those eligible payments
- e. Covered property damage costs:
 - a. Copy of invoices paid during the CP and receipts, cancelled checks, or account statements verifying those eligible payments
- f. Covered supplier costs:
 - a. Contract, order, or purchase order in effect prior to the beginning of the Covered Period and copies of invoices paid during the CP and receipts, cancelled checks, or account statements verifying those eligible payments
- g. Covered worker protection expenditures:
 - a. Copy of invoices paid during the CP and receipts, cancelled checks, or account statements verifying those eligible payments

Documentation You Do Not Need to Submit But Must Retain

1. Calculations performed when completing PPP Schedule A Worksheet Table 1
2. Documentation for an EE that refused offers to be rehired or return to prior number of hours
3. Documentation that supports the business was unable to operate at full capacity due to COVID-related safety regulations

| Form 3508 – Calculating Forgiveness for Employers

The most likely way to have your loan fully forgiven is through payroll costs. Begin by determining these costs before considering what non-payroll costs are eligible to be included in the calculation of the forgiveness amount.

The definition of eligible costs are more thoroughly defined in the 3508 Instruction Document and the SBA website can be referenced for their FAQ that addresses commonly asked questions surrounding payroll costs.