

# Form 3508EZ Documentation

## Definitions

2

## Documentation

## Self-Employed Without Employees

7

## Partnerships Without Employees

8

## Owner's Compensation for Other Business Types

9

## Documentation and Calculations for Employers

10

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.

The background of the slide features a misty, mountainous landscape. The mountains are layered, with the closest ones in dark blue and the distant ones fading into a light, hazy blue. The overall tone is cool and atmospheric. The title text is centered over this background.

# **Form 3508EZ Definitions**

# Form 3508EZ Definitions

Terminology	Definition	Definition does NOT include	Notes
PPP Loan Disbursement Date	<ul style="list-style-type: none"><li>Date you received PPP funds from FirstBank</li></ul>		<ul style="list-style-type: none"><li>If you received multiple advances on the same loan, enter the 1st date you received PPP loan funds</li></ul>
Covered Period (CP)	<ul style="list-style-type: none"><li>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.</li></ul>	<ul style="list-style-type: none"><li>1st date is NOT when loan was approved or the date you received loan documents to sign</li></ul>	
Employee (EE)	<ul style="list-style-type: none"><li>Will receive a W-2 (salary or hourly, full-time or part-time with a consistent schedule) for the CP or APCP</li><li>Principal place of residence is in the U.S.</li><li>Must have tax ID number</li></ul>	<ul style="list-style-type: none"><li>Self-employed (independent contractors, sole proprietors) earnings by owner</li><li>Partners</li></ul>	<ul style="list-style-type: none"><li>Anyone with a 1099 is generally considered its own business under PPP and can apply for its own PPP loan</li></ul>

# Form 3508EZ Definitions

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

\*FFCRA: Families First Coronavirus Response Act, Section 7001

# Form 3508EZ Definitions

Terminology	Definition	Definition does NOT include	Notes
Nonpayroll Costs Eligible for Forgiveness	<ol style="list-style-type: none"><li>1. Business mortgage INTEREST only on any mortgage signed before Feb 15, 2020</li><li>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</li><li>3. Business utilities (electricity, gas, water, transportation, telephone, or internet access) on any service that began before Feb 15, 2020</li><li>4. Covered operations expenditures paid or incurred during the Covered Period.</li><li>5. Covered property damage costs paid or incurred during the Covered Period.</li><li>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.</li><li>7. Covered worker protection expenditures paid or incurred during the Covered Period.</li></ol>	<ul style="list-style-type: none"><li>• Mortgage: excludes prepayment of interest or payment of principal.</li></ul>	<ul style="list-style-type: none"><li>• Up to 40% of total loan forgiveness may be Nonpayroll Costs</li><li>• Count ONLY ONCE any cost that was both incurred and paid</li><li>• Nonpayroll Costs are eligible if they were:<ul style="list-style-type: none"><li>• Incurred during CP and paid during CP</li><li>• Incurred during CP and paid by your next regular billing date after CP</li><li>• Owed in arrears before CP and paid during CP</li></ul></li></ul>

\*FFCRA: Families First Coronavirus Response Act, Section 7001

The background of the slide features a misty, mountainous landscape. The mountains are layered, with the closest peaks in the foreground and more distant, hazy peaks in the background. The color palette is muted, consisting of various shades of blue, grey, and white, creating a serene and atmospheric scene. The text is overlaid on the middle section of the image.

# **Form 3508EZ Required Documentation**

# Form 3508EZ - Documentation for self-employed without employees

## Determining Forgiveness Amount

The forgiveness calculation for sole proprietorships and independent contractors (but not partnerships) who did not include payroll costs in their PPP loan amount calculation is fairly straight forward and aligns with how your loan amount was initially determined. If you utilized finalized figures for Schedule C when applying for the loan, the loan amount should be fully forgiven.

- **Step 1:** Find your 2019 IRS Form 1040 Schedule C line 31 net profit amount. If this amount is over \$100,000, reduce it to \$100,000.
- **Step 2:** Calculate the average monthly net profit amount (divide the amount from Step 1 by 12)
- **Step 3:** Multiply the average weekly net profit amount from Step 2 by 2.5

This is your final forgiveness amount that will be entered into the FirstBank application portal as owner compensation.

It should be noted that if your loan amount was based on an estimated 2019 tax return form and you ultimately filed a tax return with different amounts this could impact your forgiveness calculation.

## Documentation You Must Upload to FirstBank Application Portal

Schedule C from your 2019 personal tax return  
(IRS Form 1040 Schedule C)

# Form 3508EZ - Documentation for partnerships with only general partners and no employees

## Determining Forgiveness Amount

A partnership that qualifies to use the EZ form and did not include payroll costs for employees, or partners who are not general partners, in their PPP loan amount calculation. If this does not apply to you, please see the page for employers.

- **Step 1:** Determine the actual payments made to general partners during the covered period or APCP. If the amount to any partner was greater than \$100,000, reduce it to \$100,000.
- **Step 2:** Add together the amounts for each partner from Step 1.

This is your forgiveness amount that will be entered into the FirstBank application portal as owner compensation. It should be noted that there are two limits to forgiveness for partnerships with only general partners and no employees:

- 1) Separate payments for health insurance, retirement, or taxes are not eligible as payroll costs like they are for a traditional employee
- 2) The maximum forgiveness amount for general partners is limited to 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.

## Documentation You Must Upload to FirstBank Application Portal

- 1) Checks or account statements showing proof of payment and a listing of compensation amounts for each general partner during the CP or APCP.
- 2) 2019 IRS Form 1065 Schedule K-1 for each general partner



# | Form 3508EZ Documentation for Owner Compensation

Owners compensation is calculated separately from payroll costs. For compensation related to sole proprietorships and general partners, please reference the prior pages 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 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.

# Form 3508EZ – 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.

### 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**
  - ii. Account statements verifying those eligible payments
- d. Covered operations costs:
  - i. Copy of invoices from February 2020 and those paid during the CP and receipts, cancelled checks, or account statements verifying those eligible payments
- e. Covered property damage costs:
  - i. Copy of invoices paid during the CP and receipts, cancelled checks, or account statements verifying those eligible payments
- f. Covered supplier costs:
  - i. 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:
  - i. 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. Documentation that salaries and wages were not reduced by more than 25%
2. Documentation that the number of hours were not reduced
3. Documentation for an EE that refused offers to be rehired or return to prior number of hours
4. Documentation that supports that you were unable to operate at full capacity due to COVID-related safety regulations

*\*This documentation is not applicable for borrowers utilizing the 3508S Form*

# | Form 3508EZ – 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 payroll costs are more thoroughly defined in the 3508EZ Instruction Document and the SBA website can be referenced for their FAQ that addresses commonly asked questions surrounding payroll costs.