

Fw: [EXTERNAL] PPP loan forgiveness application

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To: Richard W. Head <rwh@rathlaw.com>**From:** Deborah Tarbox <dtarbox@melansoncpas.com>**Sent:** Thursday, October 8, 2020 10:21 AM**To:** Torres, George <george.torres@PENNICHUCK.com>**Cc:** Goodhue, Larry <larry.goodhue@PENNICHUCK.com>; Howe, Carol Ann <carolann.howe@PENNICHUCK.com>; Douglas, Lori <lori.douglas@PENNICHUCK.com>; Matt Sawyer <msawyer@melansoncpas.com>; Duy Nguyen <dnguyen@melansoncpas.com>**Subject:** [EXTERNAL] PPP loan forgiveness application

Good morning George,

As we have discussed, PPP loan forgiveness and applying for forgiveness are not black and white. Your loan is greater than \$2 million and therefore will be audited by the SBA for completeness and accuracy. Caution needs to be exercised in maintaining all supporting documentation. Management's decision on whether to apply for loan forgiveness now or to wait is one that requires thought and understanding. Pennichuck's loan forgiveness application must be applied for within 10 months after your covered period. For business clients with loans greater than \$2 million, we are advising clients to wait for additional guidance that will make certain provisions clearer. It is possible that no new guidelines are issued and the rules stay the same with unanswered questions and certain assumptions will need to be made in order to apply within the 10 month period.

For Pennichuck, some of the provisions which we believe still require additional guidance are as follows:

- i) Taxability of the PPP loan amount*

In the Cares Act it was stated that the PPP loan forgiveness will be tax free, however, this provision was not coordinated with IRS. Therefore, the PPP loan forgiveness amount is not taxable directly, but the expenses incurred against the exempt income are also not deductible. This means that indirectly the PPP loan forgiveness is taxable and will increase Pennichuck's tax liability.
- ii) Timing of the forgiveness and taxable year*

As per the SBA guidance, the lender should submit a loan forgiveness application to SBA within 60 days and the SBA will take a decision within 90 days. That means it could take up to 5 months to forgive the loan. The tax year the forgiveness of debt and associated expenses are taxable, is unclear.
- iii) FTE calculation of comparison period*

The SBA has clarified the FTE calculation for the covered period, however, not much guidance has been provided on FTE calculation related to the comparison and rehire periods. For example, the guidance says that the comparison period of either Feb 15, 2019 – June 30, 2019 or Jan 1 to Feb 29, 2020 should be calculated. For rehire period Feb 15 – April 26, 2020 time period has been given. But most of the payroll periods will not align with these periods therefore businesses are using their assumption to pro rate these payroll periods.

If you have additional questions or need more information, please do not hesitate to contact me.

Best,
Deborah

Deborah Tarbox, CPA

Principal



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