



PPP Loan Forgiveness

*Breaking down the SBA
Application and Instructions*

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SPEAKER PANEL

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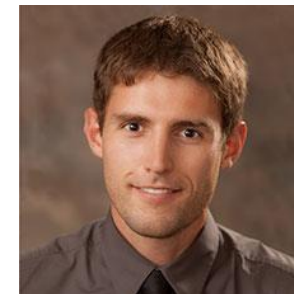
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FFCRA and CARES Act Live Update Q&A

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PPP LOAN
FORGIVENESS
APPLICATION AND
INSTRUCTIONS



Paycheck Protection Program

We have an application but do we really have the guidance we need?

What we did get?

- Application to submit to the bank
- Instructions

What is still needed?

- Narrative-based guidance to prevent broad interpretation of the instructions



Paycheck Protection Program

Significant Takeaways:

Alternate Covered Period Election

If your normal pay period frequency is biweekly or weekly, you may elect to start your covered period on the first day of the next pay period following the funding of your PPP Loan.

All other borrowers must use the original guidance.



Paycheck Protection Program

Significant Takeaways:

Eligible Payroll Costs

Generally, payroll costs must be incurred and paid in the covered period. The SBA has defined incurred to be the day the payroll costs are earned by the employee. The instructions suggest that the incurred date needs to fall in the covered period to be forgiven.

This is divergent from the language in the Act and will likely require some clarification.



Paycheck Protection Program

Significant Takeaways:

Exception to “Paid” Rule for Payroll Costs

Payroll costs incurred but not paid at the end of the covered period are still eligible for forgiveness, as long as they are paid on the normal schedule for that pay period. This will also require an allocation of payroll costs in the last pay period between those incurred in vs out of the covered period.



Paycheck Protection Program

Required Documents: Payroll

Payroll Costs:

- Bank account statements/third-party payroll service provider reports that display cash compensation paid to employees
- Tax forms for periods that overlap with covered period or alternative payroll covered period
- Payment receipts/cancelled checks/account statements documenting employer contributions to employee health insurance and retirement plans.



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Required Documents: Payroll

FTE:

- Documentation showing average number of FTE employees on payroll per month employed during either lookback period: tax filings reported or that will be reported, state quarterly business and individual employee wage reporting, unemployment insurance tax filings.



Paycheck Protection Program

Significant Takeaways:

Eligible Nonpayroll Costs

No changes were noted for nonpayroll costs from the language in the CARES Act. Eligible costs still include those nonpayroll costs with contracts in place prior to 2/15/2020 and incurred between 2/15 and 6/30/2020.

The application does not appear to require any proration of costs that we incurred prior to the covered period.



Paycheck Protection Program

Significant Takeaways:

Exception to “Paid” Rule for Nonpayroll Costs

Nonpayroll costs incurred but not paid at the end of the covered period are still eligible for forgiveness, as long as they are paid before the next assumes some allocation may be required to capture the costs incurred during the covered period.



Paycheck Protection Program

Required Documents: Nonpayroll Costs

Business Interest –

- Lender amortization schedule, and
- Receipts or cancelled checks verifying eligible payments, or
- Lender account statements from February through one month following the covered period



Paycheck Protection Program

Required Documents: Nonpayroll Costs

Business Rent or Lease –

- Copy of current lease agreement, and
- Receipts or cancelled checks for payments in the covered period, or
- Lessor account statements from February through one month following the covered period



Paycheck Protection Program

Required Documents: Nonpayroll Costs

Business Utility Payments—

- Copy of invoices from February and those paid during the covered period, and
- Receipts, cancelled checks or account statements verifying those eligible payments



Paycheck Protection Program

Significant Takeaways:

Process for Calculating Reductions in Wages Paid

- List all employees that were paid in the covered period.
- For those employees, compare those wages to the wages paid in Q1 2020.
- Any employee with greater than a 25% reduction would subject the business to a dollar for dollar reduction in forgiveness for the amount greater than 25%.



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Salary/Hourly Wage Reduction:

Example #1

Employee	Avg. Wages (CP or APCP)	Avg. Wages (Jan 1 –Mar 31)	<u>Column 2</u> <u>Column 3</u>	Reduction
Owner	130,000	130,000	1.00	n/a
A	65,000	80,000	.81	0
B	36,400	40,000	.91	0
C	20,475	25,000	.82	0



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Salary/Hourly Wage Reduction:

Example #2

Employee	Avg. Wages (CP or APCP)	Avg. Wages (Jan 1 –Mar 31)	<u>Column 2</u> <u>Column 3</u>	Reduction
Owner	130,000	180,000	.72	n/a
A	65,000	95,000	.68	TBD
B	36,400	52,000	.70	TBD
C	20,475	25,000	.82	0



Paycheck Protection Program

Salary/Hourly Wage Reduction:

Example #2 – Continued

Employee	Avg. Wages (CP or APCP)	Avg. Wages (Jan 1 –Mar 31)	<u>Column 2</u> <u>Column 3</u>	Reduction
A	65,000	95,000	.68	962
B	36,400	52,000	.70	400

- A is Salaried:
 - $\$95,000 \times 75\% = \$71,250$. $\$71,250 - \$65,000 = \$6,250$. $(\$6,250 \times 8) / 52 = \962
- B is Salaried:
 - $\$52,000 \times 75\% = \$39,000$. $\$39,000 - \$36,400 = \$2,600$. $(\$2,600 \times 8) / 52 = \400
- Total Reduction = $\$962 + \$400 = \underline{\underline{\$1,362}}$



Paycheck Protection Program

Salary/Hourly Wage Reduction:

Example #2 – Continued

Employee	Avg. Wages (CP or APCP)	Avg. Wages (Jan 1 –Mar 31)	<u>Column 2</u> <u>Column 3</u>	Reduction
A	65,000	95,000	.68	962
B	36,400	52,000	.70	0

- A Salary as of 2/15/2020: \$95,000. From 2/15/2020 - 4/26/2020: \$95,000
 - NO Safe Harbor as 2/15-4/26 Salary is greater than or equal to 2/15 Salary
- B Salary as of 2/15/2020: \$52,000. From 2/15/2020 - 4/26/2020: \$45,000
 - YES Safe Harbor IF 6/30/2020 Salary is restored to \$52,000 or greater
- Total Reduction = **\$962**



Paycheck Protection Program

Salary/Hourly Wage Reduction:

Example #3

Employee	Avg. Wages (CP or APCP)	Avg. Wages (Jan 1 –Mar 31)	<u>Column 2</u> <u>Column 3</u>	Reduction
Owner	65,000	130,000	.50	n/a
A	0	95,000	0	0
B	36,400	0	0	0
C	5,000	25,000	.20	0

- A Retired on 2/28/2020
- B was hired during Covered Period
- C went on unemployment for several weeks (rehired)



Paycheck Protection Program

Significant Takeaways:

Calculation of Full Time Equivalents (FTE)

All FTE calculations are to use 40 hours per week as the base for full time equivalents.

A simplified method may be used by businesses by assigning an FTE designation of 1.0 for all employees that worked 40 hours or more and 0.5 for all employees that worked less than 40 hours.



Paycheck Protection Program

Significant Takeaways:

Calculation of Full Time Equivalents (FTE)

How many times do we calculate FTEs?

1. Average 2/15/2019 – 6/30/2019 (For Lookback)
2. Average 1/1/2020 – 2/29/2020 (For Lookback)
3. Average 2/15/2020 – 4/26/2020 (For FTE Safe-Harbor)
4. 6/30/2020 (For FTE Safe-Harbor)
5. Each payroll during the covered period (To compare to selected Lookback)



Paycheck Protection Program

Significant Takeaways:

Calculation of Full Time Equivalents (FTE)

As previously discussed, businesses must calculate the average FTE during the covered period and compare that count to the average FTE from one of two specific time frames to determine if a percentage reduction will be applied to the total loan forgiveness.

These calculations must be submitted with the application for forgiveness.



Paycheck Protection Program

Significant Takeaways:

FTE Reduction Safe Harbor

For any business that reduced their FTE's from February 15, 2020 to April 26, 2020, and then subsequently restored their overall FTE's prior to 6/30/2020, then the business has been deemed to have restored their workforce and are exempt from the FTE based reduction of loan forgiveness.



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Salary/Hourly Wage Reduction:

Example

Employee	Hours Worked Covered Period	Historic Hours Worked	<u>Column 2</u> Column 3
Owner	42	40	1.0
A	45	45	1.0
B	32	40	.80
C	16.75	24	.70



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Significant Takeaways:

Owner Employee Compensation

Limited to the lesser of:

- Gross pay in the covered period (capped at \$15,384), or
- The eight-week equivalent of their applicable compensation in 2019.



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Significant Takeaways:

Self Employed Owners and General Partners

(with no employees)

- The application will be simplified with much of Schedule A nonapplicable.
- Full forgiveness is not possible under the formula provided in the application.



Paycheck Protection Program

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):	<u>15,000.00</u>
Line 2. Business Mortgage Interest Payments:	<u>650.00</u>
Line 3. Business Rent or Lease Payments:	<u>5,000.00</u>
Line 4. Business Utility Payments:	<u>485.00</u>

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	<u> </u>
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	<u>21,135.00</u>
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	<u> </u>

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):	<u>21,135.00</u>
Line 9. PPP Loan Amount:	<u>20,312.00</u>
Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):	<u>20,000.00</u>

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	<u>20,000.00</u>
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Paycheck Protection Program

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):	<u>15,000.00</u>
Line 2. Business Mortgage Interest Payments:	<u>650.00</u>
Line 3. Business Rent or Lease Payments:	<u>2,000.00</u>
Line 4. Business Utility Payments:	<u>485.00</u>

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	<u> </u>
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	<u>18,135.00</u>
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	<u> </u>

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):	<u>18,135.00</u>
Line 9. PPP Loan Amount:	<u>20,312.00</u>
Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):	<u>20,000.00</u>

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	<u>18,135.00</u>
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QUESTIONS?



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