

PPP Loan Forgiveness

As of Friday, June 5th

Important Changes as of 6/3/2020

- Covered period changed from 8 weeks to 24 weeks
- Breakdown of costs went from 75% Payroll and 25% Non-Payroll to 60% Payroll and 40% Non-Payroll
 - ❖ Employers may still use more than 60% toward payroll costs if applicable
- Loan Term went from 2 years to 5 years
- Employers have until December 31st versus June 30th to rehire staff
- Payroll Tax Deferral now applies
 - ❖ It is not recommended to defer payroll taxes unless a company is struggling with cash flow

PPP Forgiveness Checklist

- Spend at least 60% of the funds on payroll costs:
 - Salaries
 - Wages
 - Vacation Pay
 - Employer Medical and other Group Benefits
 - Paid Family Leave
 - Sick Leave
 - Employer Retirement Benefits
 - Bonuses, Commissions and Hazard Pay

- Spend the remaining 40% of the funds on approved expenses:
 - Mortgage Interest
 - Rent
 - Utilities

Process to Obtain Loan Forgiveness

- 1) Borrower – must complete and submit loan forgiveness application to their lender
- 2) Lender – must review the application and make a decision regarding the loan forgiveness within 60 days from receipt of application, then submit decision to SBA and request payment
- 3) SBA – must review the loan application and remit appropriate forgiveness amount to the lender plus any interest accrued through the day of payment, no later than 90 days after the lender issues its decision to SBA
- 4) Forgiveness and Repayment – lender is responsible for notifying the borrower of the forgiveness amount. If only a portion of the loan is forgiven or if forgiveness has been denied, any remaining balance due on the loan must be repaid by the borrower on or before the five-year maturity of the loan

When does the 24-Week Period Start?

If you have a bi-weekly or less pay frequency you have two options to calculate payroll costs using the 24-week period beginning on:

1. Date of disbursement of the loan **-OR-**

1. First day of the first pay period following the PPP Loan disbursement date

❖ It is advised that a company look at both periods and run through the forgiveness application to determine which one is more favorable



How are wages for owners handled?

- S-Corp or C-Corp owners/share holders: PPP Forgiveness is based on wages paid
- Partnerships – PPP Forgiveness will be based on income paid to partner that is subject to self-employment taxes during the 24 weeks
- Sole Proprietor – PPP Forgiveness is based on funds paid via a distribution subject to 24 out of the 52 weeks of the 2019 Net Income on their Schedule-C or \$46,154, whichever is less

How do I calculate FTE count?

There are two methods to calculating your FTE count:

1. Standard Method: for each employee take the average number of hours paid per week and divide by 40, rounding to the nearest tenth
 2. Simplified Method: Assign a 1.0 for employees who work 40 hours or more per week and a 0.5 for employees who work less than 40 hours per week
 - ❖ If employees tend to punch out before they hit 40 hours, ie. 39.8 it is advised to use the Standard Method
- ❖ It is advised that a company look at both calculations and determine which method results in the more favorable outcome.
- ❖ If the hours worked by the employee prior to the 8 weeks match the hours worked during the 24 weeks there would be no reduction

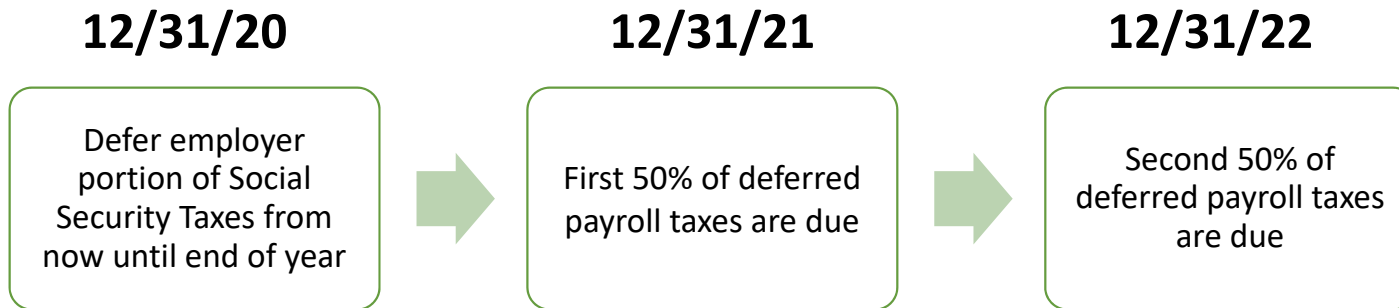
FTE Reduction for employees who refuse to come back?

For any employees who have not been replaced due to the following scenarios, they will not count against the FTE Reduction:

- a. Company made an offer to rehire and they refused
- b. Fired for cause
- c. Voluntarily resigned
- d. Voluntarily requested a reduction in hours

❖ It is advised that these situations are documented in writing

Payroll Tax Deferral



- ❖ It is recommended that all Employers talk this over with the CPA before deferring their taxes to ensure that deferring would be the best decision for your company

PPP Loan Application Example

Assumptions:

- 4 employees in the base period
- 4 employees after 24 weeks
- \$95,275 Loan amount funded on 5/6/2020
- Company has bi-weekly payroll
- Pay period before loan funded ends 5/8/20 and is paid 5/11/20
- Next pay period begins on 5/11/20 through 5/22/20 and was paid on 5/25/20
- Company pays \$500 per employee per month for health insurance (PT and FT Employees)
- No retirement benefits
- Rent is \$5,000 per month
- Utilities are \$2,000 per month



Paycheck Protection Program
Loan Forgiveness Application

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		() -	
		Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: 95,275.00 PPP Loan Disbursement Date: 5/6/2020

Employees at Time of Loan Application: 4

Employees at Time of Forgiveness Application: 4

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

Weekly Biweekly (every other week) Twice a month Monthly Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: 5/11/2020 to 10/25/2020

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here:

Forgiveness Amount Calculation:

<u>Payroll and Nonpayroll Costs</u>	
Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):	<u>202,668.92</u>
Line 2. Business Mortgage Interest Payments:	<u>0</u>
Line 3. Business Rent or Lease Payments:	<u>27,692.31</u>
Line 4. Business Utility Payments:	<u>11,076.92</u>
<u>Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions</u>	
Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	<u>0</u>
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	<u>241,438.15</u>
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	<u>0</u>
<u>Potential Forgiveness Amounts</u>	
Line 8. Modified Total (multiply line 6 by line 7):	<u>241,438.15</u>
Line 9. PPP Loan Amount:	<u>95,275.00</u>
Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60):	<u>121,601.35</u>
<u>Forgiveness Amount</u>	
Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	<u>95,275.00</u>

PPP Loan Application Example Continued

	Base Period		24 Week Loan Period	
	Wages	FTE	Wages	FTE
Employee 1	\$62,497.50	0.5	\$62,497.50	0.5
Employee 2	\$52,617.50	0.5	\$52,617.50	0.5
Employee 3	\$70,000	1.0	\$100,000	1.0
Employee 4	\$120,000	1.0	\$150,000	1.0
Owner	\$50,000	N/A	\$100,000	N/A



PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
Employee 1	1111	28,845	.5	0
Employee 2	2222	24,285	.5	0
FTE Reduction Exceptions:				
Totals:		Box 1 53,130	Box 2 1.0	Box 3 0

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Employee 3	3333	48,154	1
Employee 4	4444	48,154	1
Totals:		Box 4 92,308	Box 5 2.0

Attach additional tables if additional rows are needed.

FTE Reduction Safe Harbor:

- Step 1. Enter the borrower's total average FTE between February 15, 2020 and April 26, 2020. Follow the same method that was used to calculate Average FTE in the PPP Schedule A Worksheet Tables. Sum across all employees and enter: 3.
- Step 2. Enter the borrower's total FTE in the Borrower's pay period inclusive of February 15, 2020. Follow the same method that was used in step 1: 3.
- Step 3. If the entry for step 2 is greater than step 1, proceed to step 4. Otherwise, the FTE Reduction Safe Harbor is not applicable and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.
- Step 4. Enter the borrower's total FTE as of December 31, 2020: 3.
- Step 5. If the entry for step 4 is greater than or equal to step 2, enter 1.0 on line 13 of PPP Schedule A; the FTE Reduction Safe Harbor has been satisfied. Otherwise, the FTE Reduction Safe Harbor does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.

PPP Loan Application Example Continued

	Base Period		24 Week Loan Period	
	Wages	FTE	Wages	FTE
Employee 1	\$62,497.50	0.5	\$62,497.50	0.5
Employee 2	\$52,617.50	0.5	\$52,617.50	0.5
Employee 3	\$70,000	1.0	\$100,000	1.0
Employee 4	\$120,000	1.0	\$150,000	1.0
Owner	\$50,000	N/A	\$100,000	N/A



PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:	53,130
Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:	1.0
Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1: If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here <input type="checkbox"/> and enter 0 on line 3.	0

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:	92,308
Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:	2
<u>Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period</u>	
Line 6. Total amount paid by Borrower for employer contributions for employee health insurance:	11,076.92
Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans:	0
Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation:	0

Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners: This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each.	46,154
<u>Total Payroll Costs</u>	
Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9):	202,668.92

Full-Time Equivalency (FTE) Reduction Calculation

If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period, check here , skip lines 11 and 12 and enter 1.0 on line 13.

Line 11. Average FTE during the Borrower's chosen reference period:	3
Line 12. Total Average FTE (add lines 2 and 5):	3
Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met:	0

Other Facts to note:

- Employers who received the loan within the first week (4/3) will complete their 24-weeks on 9/18/2020.
- There is no deadline for when applications are due by at this time. However, lenders have 60 days after submission to approve or deny the application.
 - ❖ It is advised that groups do not rush to submit an application due to the pending legislation
- Any amount not forgiven must be repaid at 1% interest rate over 5 years. There are no prepayment penalties. 1% interest payments will begin 6 months after the loan forgiveness application has been processed by the lender.
- Although, the forgiveness time frame has been extended to from 8 to 24 weeks if a employer has already used 100% of their funds they shouldn't wait the 24 weeks to submit their forgiveness application