

PPP Loan Forgiveness

May, 2020

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SBA Loan Forgiveness Application

On May 15, 2020, the SBA released a PPP Loan Forgiveness Application form. There are four parts to the document:

- (i) the PPP Loan Forgiveness Calculation Form,
- (ii) PPP Schedule A,
- (iii) the PPP Schedule A Worksheet, and
- (iv) the optional PPP Borrower Demographic Information Form.

Only parts (i) and (ii) are required to be submitted to the lender.



Hot Button Items on the PPP Loan Forgiveness Application

- The application lists an expiration date of October 31, 2020, suggesting that October 31 is the deadline for borrowers to submit applications to their lenders.
- The application allows for the use of an alternative 8-week covered period to align with a borrower's payroll schedule. This Alternative Payroll Covered Period (APCP) applies only to payroll costs.
- The Forgiveness amount calculation is an 11 step process, with back up and additional calculations needed.

Covered Period (CP)

- The same eight-week (56-day) Covered Period of your PPP loan.
- The first day of the Covered Period must be the same as the PPP Loan Disbursement Date.
- For example, if the Borrower received its PPP loan proceeds on Monday, April 20, the first day of the Covered Period is April 20 and the last day of the Covered Period is Sunday, June 14.

Payroll Costs

- Payroll Costs – Per PPP Loan Application eligible costs are costs either paid or incurred during the 8 week period.
 - Employee
 - Wages, salary, commissions, or tips (up to cap of \$100K/year/person)
 - Does NOT include payments to independent contractors
 - Vacation, parental, family, medical, or sick leave
 - Dismissal or separation payments
 - Payments for group health care benefits, including insurance premiums (excludes any pre-tax or after tax contributions by employees)
 - Retirement benefits (excludes any pre-tax or after tax contributions by employees)
 - Employer state or local taxes on compensation
 - Excludes (i) employer's share of Federal employment taxes and federal income tax withholding, (ii) compensation to an employee whose principal place of residence is outside the United States, and (iii) qualified sick/family leave under the Families First Coronavirus Response Act

Non-Payroll Costs

- Payments of interest on any mortgage obligations
- Business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020
- Covered utility payments: business payments for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020
- Maintains the 25% rule – nonpayroll costs cannot exceed 25% of the total forgiveness amount

Forgiveness Calculation

- Add payroll costs and nonpayroll costs
- Reduce for headcount and wage reductions to arrive at the Potential Forgiveness Amount (PFA)
- Final forgiveness amount is the smaller of (i) the PFA, (ii) the PPP loan amount, or (iii) the payroll costs divided by 75%

Reductions that Affect Forgiveness

- FTE Reduction
 - Compare FTEs During the Covered Period to two base periods to determine if there are any reductions:
 - Based Period 1 – January 1, 2020 – February 29, 2020
 - Based Period 2 – February 15, 2019 – June 30, 2019

FTE Calculation

The full-time equivalency (FTE) calculation is different than expected.

- Base method – for each employee, divide the average number of hours paid per week by 40 and round to the nearest tenth, capping any individual employee at 1
- Simplified method – each employee who works 40 hours or more per week is 1 FTE, and every other employee is assigned 0.5

Although borrowers have a choice between the two methods, they are required to use the same method consistently throughout this computation.

FTE Calculation (cont'd)

FTE Reduction Exceptions - FTE reductions during the CP will not reduce loan forgiveness if they result from any of the following:

- (i) the employee was fired for cause
 - (ii) the employee voluntarily resigned
 - (iii) the employee voluntarily requested and received a reduction in their hours
- *This favorable rule can be viewed as an expansion of the exception in FAQ #40 for employees that were laid-off and refused to return to work.*
 - *In addition the FTE Reduction Safe Harbor takes a snapshot approach to the rehire exemption. It looks to the borrower's total FTE count as of June 30, 2020.*

Wage/Salary Reduction

- The application requires an employee-by-employee comparison
- The application requires the base period for this calculation to be the first three months of 2020, i.e., from January 1, 2020, through March 31, 2020, as opposed to the most recent three months.
- The application compares average annual salaries/hourly wages during the CP (or APCP) to average annual salaries/hourly wages during the first three months of 2020, and then reduces forgiveness as follows:
 - (i) for salaried employees, by an amount equal to the annualized reduction in excess of 25% multiplied by 8/52; and
 - (ii) for hourly employees, by an amount equal to the hourly wage reduction in excess of 25% multiplied by the average number of hours worked per week in Q1 2020 multiplied by 8.

Wage/Salary Reduction (cont'd)

Exceptions

- Greater than \$100,000 in 2019.
 - If paid weekly, the wage reduction rule does not apply to any employee who received more than \$1,923 per pay period in 2019, or more than \$3,846 per pay period in 2019 if paid on a bi-weekly basis.
- The wage reduction calculation will only apply to employees that were employed during the Covered Period.

The Salary/Hourly Wage Reduction Safe Harbor takes a snapshot approach to the rehire exemption. It looks to the employee's average annual salary/hourly wage as of June 30, 2020 and if that amount is at least what the employee was making on the pay period that included 2/15/2020 the Reduction Safe Harbor is satisfied.

Allowable Uses vs. Forgivable Expenses

	<u>Allowable Uses (during the 2-year term of the loan)</u>	<u>Forgivable Expenses (during the 8-week period)</u>
1	Payroll costs (including salary, wages, retirement benefits, group health care benefits, state and local employment taxes, etc.) for employees whose principal place of residence is in the U.S.	Same (note: salary cap is \$15,385 for the 8-week period)
2	Interest on business mortgage obligations (but not prepayments or principal payments) on real or personal property	Interest on business mortgage obligations (but not prepayments or principal payments) on real or personal property, if the loan was incurred before 2/15/2020
3	Business rent for real and personal property	Business rent for real and personal property, if the lease was in effect before 2/15/2020
4	Business utilities (including electricity, gas, water, transportation, telephone and internet)	Business utilities (including electricity, gas, water, transportation, telephone and internet), if the service was in effect before 2/15/2020
5	Interest in any other debt obligations incurred before 2/15/2020	None
6	Costs related to the continuation of group health care benefits during periods of paid leave, and insurance premiums	None

Loan Application



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: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____

Employees at Time of Forgiveness Application: _____

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: _____ to _____

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

Loan Application

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):

Line 2. Business Mortgage Interest Payments:

Line 3. Business Rent or Lease Payments:

Line 4. Business Utility Payments:

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):

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):

Line 9. PPP Loan Amount:

Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

Schedule A



Paycheck Protection Program Loan Forgiveness Application

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

PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

- Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____
- Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____
- 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 ☐ and enter 0 on line
3. _____

PPP Schedule A Worksheet, Table 2 Totals

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

Schedule A

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.

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): _____

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: _____

Line 12. Total Average FTE (add lines 2 and 5): _____

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met: _____

Documentation

- Payroll
- FTE
- Nonpayroll

Thank You For Your Time!



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