

PPP Loan Forgiveness

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Bucks County



Thanks:

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- David Boster, our ex-chairman who has inspired many of us

Disclaimers:

- Use the presentation for informational purposes only and not as legal, business, or tax advice. Consult your own attorney, business advisor, or tax advisor with respect to matters referenced in this presentation.
- Rules have been changing – PPPFA changed original application and the process significantly. SBA will issue a new form for calculation of the forgiveness soon.
- Your lender may have additional requirements. It is a good idea to stay in touch with your lender.

Discussion Topics for Today

- Must do things to get loan forgiveness
- Definition of some terms
- Items that affect total forgiveness
- Sample Calculation of forgiveness
- Understanding different items on the form
- Documentation Requirements

Discussion Topics for Today (continued)

- What If I did not apply for enough loan amount?
- Changes Introduced by PPPFA
- Deductibility of the Qualified Expenses

Must do things to get loan forgiveness

- **MUST APPLY FOR LOAN AND GET THE LOAN - One can STILL apply until 6/30/2020**
- MUST **APPLY** FOR FORGIVENESS –
it is not an automatic process
- Application MUST go to your lender and not to SBA
- Download the form from <https://www.sba.gov/document/sba-form--paycheck-protection-program-loan-forgiveness-application>
- MUST start collecting information now

Must do things to get loan forgiveness

- SHOULD apply for forgiveness as soon as CP or APCP (defined soon) is over
- MUST understand that lender can take up to 60 days to decide forgiveness amount based on data supplied by you and SBA can take additional time before the funds are transferred to the Bank. It is the second date where the repayment of the amount not forgiven is supposed to start, however, repayment can start as soon as the borrower decides to pay.

Definitions of Key Terms

- CP – Covered Period, 8 weeks or 56 days from the day of loan disbursement. PPPFA changes it to 24 weeks or up to Dec 31, 2020
- APCP – Alternative Payroll Covered Period, 8 weeks or 56 days from the first day of the new pay period after loan disbursement – payroll frequency every 2 weeks or sooner
- FTE – Full time equivalent employee, 40 hours or more per week = 1 FTE, for part timer with less than 40 hours per week calculate as hours worked/40 or for simplicity take 0.5 FTE for each part time employee
- RP - Reference Period, two different periods are defined in the application, use either one that works to you advantage but use it consistently everywhere in your calculations

Definitions of Key Terms

- Reference Period RP – For purposes of this calculation, the reference period is, at the Borrower’s election, either (i) February 15, 2019 to June 30, 2019; (ii) January 1, 2020 to February 29, 2020; or (iii) in the case of seasonal employers, either of the preceding periods or a consecutive twelve-week period between May 1, 2019 and September 15, 2019. For each employee, follow the same method that was used to calculate Average FTE on the PPP Schedule A Worksheet. Sum across all employees during the reference period and enter that total on this line.

Definitions of Key Terms (continued)

- Payroll Costs – Include paid as well as incurred during CP or APCP. Payroll costs include salary, wage, vacation, parental, family, medical, or sick leave, health benefits and state and local employer tax based on salary. Federal taxes (FICA) and federal and state withholding do not count as payroll costs
- Forgivable Non-payroll Expenses (must be in place on or before February 15, 2020)
 - Mortgage Interest (not the principal), cannot include any prepayment or excess principal payment
 - Rent
 - Utility (includes gas, electric, water, sewer, telephone and internet, and transportation)

Definitions of Key Terms (continued)

- Forgiveness Reduction Factors
- FTE Reduction Quotient (FRQ) – FTE during CP / FTE during RP
 - See FTE Reduction Safe Harbor
- Payroll Reduction Amount (PRA) – if more than 25% reduction in salary or hourly rate
 - See Payroll Reduction Safe Harbor
- Adjusted Payroll Cost = (Payroll cost – PRA) * FRQ
- Maximum Allowable Forgiveness (**60%, 40% Rule**) = Adjusted Payroll Cost / **0.60**

Definitions of Key Terms (continued)

- Owner-Employee or Self-Employed Individual's Payroll Cost - MUST not exceed eight weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.

Employee Hiring Safe Harbors

- Provide a safe harbor from reductions in loan forgiveness based on reductions in full-time equivalent employees for borrowers that are unable to return to the same level of business activity the business was operating at before February 15, 2020, due to compliance with requirements or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to worker or customer safety requirements related to COVID-19.

Employee Hiring Safe Harbors (continued)

- Provide a safe harbor from reductions in loan forgiveness based on reductions in full-time equivalent employees, to provide protections for borrowers that are both unable to rehire individuals who were employees of the borrower on February 15, 2020, and unable to hire similarly qualified employees for unfilled positions by December 31, 2020.

Sample Calculations

- Simple Example
- CP or APCP
- Selection of Reference Period
- FTE Reduction
- **Your Calculations will vary based on the disbursement date, your payroll frequency, your payroll cycle start date as well as your paycheck distribution date (or ACH transfer date for Direct Deposits)**

Sample Calculations

Assumptions for this example:

- Average Monthly Payroll Cost on application = \$40,000.00
- Average bi-weekly Pay Period Payroll Cost =
$$\$40,000 * 12 \text{ months} / 52 \text{ weeks} * 2 \text{ weeks per period} = \$18,462.00$$
- # of FTE = 8
- Monthly (Rent + Utility) Expenses = \$15,000.00
- Loan Amount Received = $2.5 * \$40,000 = \$100,000.00$
- Loan Received on April 23, 2020
- Payroll date – April 27, 2020, Monday (for April 13 – April 26 Period)
- Next Payroll Period Bi-weekly – starts on Monday April 27.

Sample Calculations – see calendar on next slide

- Covered Period (CP): 8 weeks from loan disbursement
- Starting from April 23, 2020 (Thursday) – June 17, 2020 (Wednesday)
- Alternative Payroll Covered Period (APCP)
- Starting from April 27, 2020 (Monday) - June 21, 2020 (Sunday)
- Implication – Can potentially capture several extra days of payroll cost. **Be careful about owner-employee and self-employed individuals**

Sample Calculations

APRIL						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

MAY						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

JUNE						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

Sample Calculations

- Let us assume that same # of employees were retained and there was no change to salary or # of hours worked.
- Payroll cost over **CP** = $4 * \$18,462 + 8/10 * \$18,462 =$
- $\$73,848$ (Paid) + $\$14,770$ (Incurred) = $\$88,618.00$
- Pay dates = 4/27, 5/11, 5/25, 6/8 – 6/22 does not count
- Old Rule Maximum Forgiveness (75%) = $\$118,156.00$
- New Rule Maximum Forgiveness (60%) = $\$147,696.00$

Sample Calculations

- Let us assume that same # of employees were retained and there was no change to salary or # of hours worked.
- Payroll cost over **APCP** = $4 * \$18,462 + 10/10 * \$18,462 =$
- $\$73,848 \text{ Paid} + \$18,462 \text{ (Incurred)} = \$92,310.00$
- Pay dates = 4/27, 5/11, 5/25, 6/8, - 6/22 outside of APCP
- Old Rule Maximum Forgiveness (at 75%) = $\$123,080.00$
- New Rule Maximum Forgiveness (at 60%) = $\$153,850.00$

Sample Calculations

- Average Annual Salary and or Hourly Wages between January 1, 2020 and March 31, 2020 is used for Wage Reduction Amount Calculation as well as FTE Reduction Factor Calculation if needed

FTE Calculation

- **Average FTE:** This calculates the average full-time equivalency (FTE) during the Covered Period or the Alternative Payroll Covered Period. For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower.

Forgiveness for Self Employed

- **Average Payroll for Schedule C Filer:**
 - Take Lesser of \$100,000 and Net income from 2019 Schedule C
 - Multiply by 8 and then divide by 52 (maximum of \$15,385)
 - Technically could not get 100% forgiveness at 75% Rule
- **Average Payroll for Schedule K-1 Recipient, Owner**
 - Amount in Box 14 * 0.925
 - Multiply by 8 and then divide by 52 (maximum of \$15,385)

Forgiveness for Self Employed

- **File as S Corp taking W2 salary plus distribution:**
 - Take Lesser of \$15,385.00 ($\$100,000 \times 8/52$) and current salary plus health benefits and retirement payment paid in CP. **CANNOT ADD K-1 distribution. ONLY for 8 weeks**
 - Can take Rent, Mortgage Interest, Utilities, etc. for qualified expenses

Loan Forgiveness Application Form

The following link downloads the Forgiveness Application Form (5/20 version from SBA website. This form WILL change to comply with PPPFA.

<https://www.sba.gov/document/sba-form--paycheck-protection-program-loan-forgiveness-application>

The following link shows file with highlight on my computer and will not work for you
[PPP Loan Forgiveness Application with highlights from local computer](#)

Documents that must be retained for 6 years

- **Documents that Each Borrower Must Maintain but is Not Required to Submit to SBA (your bank may want it anyway)**
- PPP Schedule A Worksheet or its equivalent and the following:
- a. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
- b. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.

Documents that must be retained for 6 years

- c. Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule.
- d. Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor.”

Documents that must be retained for 6 years

All records relating to the Borrower's PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower's certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower's loan forgiveness application, and documentation demonstrating the Borrower's material compliance with PPP requirements. **The Borrower must retain all such documentation on files for six years after the date the loan is forgiven or repaid in full**, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

What if Forgiveness is Less than Loan Amount

- The balance of the loan that is not forgiven will have to be paid back at 1% interest over a 2-year term. First payment will be due after 6 months from the date of disbursement of your loan. *
- You can pay off the balance earlier than its due date – there is no pre-payment penalty.
- **EIDL Loan advance – Does not need to be paid back according to Jim Verbeck at SBA**

What If I Did Not Apply for Enough

- You can correct the amount you applied for if you think that you did not apply for enough because of an error in calculating average payroll expense.
- Can correct it only if there was an error in your previous application.
- **2.5 times the average monthly payroll is still the maximum amount you can apply for.**

Key Changes Introduced by PPPFA

- 60% minimum towards payroll instead of 75%
- Optionally allows 8 weeks CP extension to 24 weeks until to Dec 31, 2020
- FTE Safe Harbors has been expanded
- Loan Repayment Term on non-forgiveness - 5 Years
- There is no partial forgiveness if at least 60% of the loan amount is not spent on Payroll during CP. Partial forgiveness has been removed, however, it will most likely be modified to allow for partial forgiveness.

Key Changes Introduced by PPPFA (cont.)

- Allowing borrowers until December 31, 2020, to restore their workforce levels and wages to the pre-pandemic levels required for full forgiveness
- Permitting loan recipients to exclude position(s) from their full-time employee count for forgiveness purposes if they either: (1) cannot find a qualified replacement employee, or (2) cannot restore their business to its economic status as of February 15, 2020, due to the impact of COVID-19, or (3) if their employee chooses not to return to work
- Look back period for criminal records reduced to 1 year from 5 years

Tax Deductibility of Qualifying Expenses

- **Nothing in PPPFA has changed Deductibility of the Qualified Expenses interpretation of IRS. Qualified Expenses are not deductible.**
- **Depending on when the Forgiveness application is filed and approved by Bank and the fund transferred to Bank, correction to 2020 Income Tax return may be necessary for some.**

Some additional Help for your clients

- EIDL \$10,000.00 Advance “Grant” and Loan is open again.
- A local non-profit called the Pennsylvania 30 Day Fund recently launched a forgivable loan program for PA small businesses. The fund's goal is to help save as many PA jobs as possible while a small business waits to receive approved Federal funding. A small business can receive funding of \$3,000.00 that does not need to be repaid.

Additional information about the program and the Application can be found at the pa30dayfund.com website.

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Questions?

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