

# PPP Loan Forgiveness

## Overview

- The information in today's webinar is our understanding of the forgiveness application based on forms and guidance issued through June 17, 2020 and is subject to change pending further guidance from SBA and Treasury.



# PPP Loan Forgiveness

## Overview

- The PPP loan forgiveness is based on the amount of eligible costs paid during the 24 weeks following receipt of PPP loan proceeds (the 24-week covered period).
- Alternatively, if you received your PPP loan prior to 6/5/20, you may elect to use an 8-week covered period.
- If you do not maintain “normal” employee count or compensation levels during the 24-week covered period, you may have a reduction in your eligible costs.



# PPP Loan Forgiveness

## What is INCLUDED in payroll costs?

- Salaries, wages, commissions, or tips paid to nonowner employees (per employee cap of \$46,154 over the 24-week covered period, \$15,385 over an 8-week covered period).
  - This can include bonuses, hazard pay, and compensation to furloughed employees.



# PPP Loan Forgiveness

## What is INCLUDED in payroll costs?

- Amounts paid to self-employed individuals, general partners, or owner-employees, capped at the lesser of:
  - 1) 2.5 months of their 2019 compensation (8 weeks' worth if electing to use the 8-week period) or
  - 2) \$20,833 (\$15,385 if electing to use the 8-week period).

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## What is INCLUDED in payroll costs?

- Employee health insurance contributions paid by the employer (excluding employee contributions).
  - Do not include amounts paid for self-employed individuals, general partners, or owner-employees of S-corporations.



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## What is INCLUDED in payroll costs?

- Employee retirement plan contributions paid by the employer (excluding employee contributions).
  - Do not include amounts paid for self-employed individuals or general partners.
  - Owner-employee contributions are limited to 2.5 months of the 2019 amount.
- Employer state & local taxes (e.g. state unemployment).

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## What is EXCLUDED from payroll costs?

- Any compensation of an employee whose principal place of residence is outside the U.S.
- Qualified sick and family leave wages for which a credit is allowed under the Families First Coronavirus Response Act.



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## 60% payroll cost requirement:

- In order to receive full loan forgiveness, you must spend at least 60% of your loan proceeds on payroll costs.
- If you spend less than 60% on payroll costs, you will still be able to receive partial forgiveness.





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## What are nonpayroll costs (40% loan forgiveness cap)?

- Interest paid on debt incurred before 2/15/20 that is mortgaged by real or personal property.
- Rent paid under a real or personal property leasing agreement in force before 2/15/20
- Payments for utility services which began before 2/15/20, including utility services for:
  - Electricity
  - Gas
  - Water
  - Transportation
  - Telephone
  - Internet

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## Eligible costs paid and incurred

- Payroll costs are considered paid on the day that paychecks are distributed and considered incurred on the day the pay is earned.
  - Payroll costs incurred but not paid during the borrower's last pay period of the covered period are eligible for forgiveness if paid on or before the next regular payroll date.
- Nonpayroll costs must be paid during the covered period or incurred during the covered period and paid on or before the next regular billing date.



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**You can use the EZ application if you meet one of the following criteria:**

- You are self-employed and have no employees.
- You did not reduce any employee's\* salary/hourly wage by more than 25% AND you did not reduce your employee count or hours worked\*\* between 1/1/20 and the end of the 24-week covered period.
- You did not reduce any employee's\* salary/hourly wage by more than 25% AND, during the 24-week covered period, you were unable to operate at pre-2/15/20 levels due to COVID-19 governmental restrictions.



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**\*Who counts as an employee for the salary/hourly wage reduction?**

- For purposes of determining whether you reduced an employee's hourly/salary wage by more than 25%, only consider employees who did not receive more than \$100,000 of wages in 2019.



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## **\*\*How do I calculate my average Full-Time Equivalency (FTE)?**

- For each employee, determine the average number of hours paid per week over a given period, divide by 40, and round to the nearest tenth, not to exceed 1.0.
- Alternatively, you may use a simplified method by assigning a 1.0 for employees working 40 or more hours per week, and 0.5 for employees working less than 40 hours per week.

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## **\*\*How do I calculate my average Full-Time Equivalency (FTE)?**

- During the 24-week covered period, the following FTE Reduction Exceptions apply:
  1. Any employee laid off after 2/15/20 who declined written a rehire offer.
  2. Any employee who rejected an offer to restore hours.
  3. Any employees who (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested a reduction in hours.
- Exceptions don't apply if replaced by new employees.



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## What if I did have a salary/hourly wage reduction >25%?

Step 1. Determine if pay was reduced more than 25%.

- a. Enter average annual salary or hourly wage during Covered Period or Alternative Payroll Covered Period: \_\_\_\_\_
- b. Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020: \_\_\_\_\_
- c. Divide the value entered in 1.a. by 1.b.: \_\_\_\_\_  
If 1.c. is 0.75 or more, enter zero in the column above box 3 for that employee; otherwise proceed to Step 2.

Step 2. Determine if the Salary/Hourly Wage Reduction Safe Harbor is met.

- a. Enter the annual salary or hourly wage as of February 15, 2020: \_\_\_\_\_
- b. Enter the average annual salary or hourly wage between February 15, 2020 and April 26, 2020: \_\_\_\_\_  
If 2.b. is equal to or greater than 2.a., skip to Step 3. Otherwise, proceed to 2.c.
- c. Enter the average annual salary or hourly wage as of the earlier of December 31, 2020 and the date this application is submitted: \_\_\_\_\_  
If 2.c. is equal to or greater than 2.a., the Salary/Hourly Wage Reduction Safe Harbor has been met – enter zero in the column above box 3 for that employee. Otherwise proceed to Step 3.

Step 3. Determine the Salary/Hourly Wage Reduction.

- a. Multiply the amount entered in 1.b. by 0.75: \_\_\_\_\_
- b. Subtract the amount entered in 1.a. from 3.a.: \_\_\_\_\_

If the employee is an hourly worker, compute the total dollar amount of the reduction that exceeds 25% as follows:

- c. Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020: \_\_\_\_\_
- d. Multiply the amount entered in 3.b. by the amount entered in 3.c. \_\_\_\_\_ Multiply this amount by 24 (if Borrower is using a 24-week Covered Period) or 8 (if Borrower is using an 8-week Covered Period): \_\_\_\_\_ Enter this value in the column above box 3 for that employee.

If the employee is a salaried worker, compute the total dollar amount of the reduction that exceeds 25% as follows:

- e. Multiply the amount entered in 3.b. by 24 (if Borrower is using a 24-week Covered Period) or 8 (if Borrower is using an 8-week Covered Period): \_\_\_\_\_ Divide this amount by 52: \_\_\_\_\_ Enter this value in the column above box 3 for that employee.



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## What if I did have a reduction in employee count but was able to operate at normal levels?

### FTE Reduction Safe Harbor 2:

- 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:
- 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:
- Step 3. If the entry for step 2 is greater than step 1, proceed to step 4. Otherwise, FTE Reduction Safe Harbor 2 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 the earlier of December 31, 2020, and the date this application is submitted:
- 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 2 has been satisfied. Otherwise, FTE Reduction Safe Harbor 2 does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.



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## What if I do not meet the FTE Reduction Safe Harbor 2?

- Your eligible costs will be reduced if your Average FTE during the 24-week covered period is less than your Average FTE during the lesser of the following reference periods:
  - 2/15/19 – 6/30/19
  - 1/1/20 – 2/29/20

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## What will this look like on the application?

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
<b>FTE Reduction Exceptions:</b>				
<b>Totals:</b>		<b>Box 1</b>	<b>Box 2</b>	<b>Box 3</b>

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
<b>Totals:</b>		<b>Box 4</b>	<b>Box 5</b>



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What will this look like on the application?

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 any of the above criteria are met:



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## What you should be doing now:

- Determine your Average FTEs from 2/15/19-6/30/19, 1/1/20-2/29/20, and 2/15/20-4/26/20 as well as at 1/1/20 and 2/15/20.
- Maintain documentation for and track payments of eligible costs paid during the 24-week covered period (payroll records, cancelled checks, payment receipts, transcripts of accounts, or other documents).
- Gather documentation to show mortgage obligations, lease agreements, and utilities were in place as of 2/15/20.



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## Other provisions of the PPP Flexibility Act:

- The minimum repayment period was extended to 5 years for loans issued after 6/4/20. Existing loans may be renegotiated.
- Loan payments deferred until forgiveness is determined, or 10 months after the end of the 24-week covered period if forgiveness is not applied for.
- Allows borrowers to defer payment of the employer's share of Social Security payroll taxes.

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## Questions?

- Kristi Moore – [kmoore@jmf.com](mailto:kmoore@jmf.com)
- Thomas Hahn – [thahn@jmf.com](mailto:thahn@jmf.com)
- JMF PPP – [ppp@jmf.com](mailto:ppp@jmf.com)

