

PPP Loan Forgiveness

Information

- The information covered today (April 29th, 2020) regarding PPP loan forgiveness is our understanding of the CARES Act as it was written and is subject to change pending further guidance from the SBA.



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Overview

- Your PPP loan forgiveness is the amount of your eligible costs paid during the 8 weeks following receipt of PPP loan proceeds (the 8 week covered period).
- If you do not maintain “normal” employee count or compensation levels during the 8 week covered period, you may have a reduction in your eligible costs.
- There are special considerations for self-employed individuals.



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What is INCLUDED in payroll costs?

- Salaries, wages, commissions, or tips (capped at \$15,385 per employee over the 8-week covered period).
- Employee benefits including costs for vacation, paid leave, allowance for separation or dismissal, employer paid health benefits, and employer paid retirement benefits.
- Employer state and local taxes assessed on compensation.



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Example of wage limit:

- DEF, Inc. pays \$110,000 of payroll costs during the 8-week covered period.
- Included in this total are Jack and Jill's salaries of \$25,000 and \$20,000, respectively.
- DEF, Inc. can only include \$15,385 of their salary in eligible payroll costs for loan forgiveness, so eligible payroll costs are \$95,770.



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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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What are nonpayroll costs (up to 25% of loan amount)?

- Interest paid on debt incurred before 2/15/20 that is mortgaged by real or personal property.
- Rent paid under a 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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Example of nonpayroll cost limit:

- ABC, Inc. received a PPP loan of \$100,000 and incurs the following eligible costs during the 8-week covered period:
 - \$70,000 payroll costs
 - \$35,000 nonpayroll costs
- Nonpayroll costs are limited to \$25,000 (25% of the loan amount), so eligible costs are \$95,000



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What is a Full-Time Equivalent (FTE) Employee as defined by the SBA?

- Employees who work 30 hours per week or more.
- The aggregate of employees who work less than 30 hours per week, where the hours worked of such employees add up to at least 30 hours per week.
- Temporary employees, independent contractors, and leased employees are NOT considered in the FTE calculation.



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If you have a reduction in FTEs you will need to reduce your eligible costs as follows:

- Divide your average number of FTEs during the 8-week covered period by the lesser of the following-
 - Average number of FTEs from 2/15/19-6/30/19
 - Average number of FTEs from 1/1/20-2/29/20
- Subtract 1 from the result above (this should be negative if you had a reduction in FTEs)
- Multiply your eligible costs by the result above and reduce your eligible costs by this number.



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Example FTE calculation for TUV, Inc. (biweekly pay periods):

2/15/19 – 6/30/19

	A	B	C (B/30)	D(A+C)
Date	Employee Count > 30 Hrs	Total Hours < 30 per Employee	Equivalent	Total FTEs
2/15/2019	52	90	3	55
3/1/2019	49	100	3	52
3/15/2019	48	120	4	52
3/29/2019	48	130	4	52
4/12/2019	49	140	5	54
4/26/2019	48	80	3	51
5/10/2019	49	90	3	52
5/24/2019	48	70	2	50
6/7/2019	49	60	2	51
6/21/2019	51	30	1	52
AVERAGE				52

1/1/20 – 2/29/20

	A	B	C (B/30)	D(A+C)
Date	Employee Count > 30 Hrs	Total Hours < 30 per Employee	Equivalent	Total FTEs
1/3/2020	48	60	2	50
1/17/2020	47	30	1	48
1/31/2020	46	90	3	49
2/14/2020	47	120	4	51
2/28/2020	48	150	5	53
AVERAGE				50

4/17/20 – 6/11/20

	A	B	C (B/30)	D(A+C)
Date	Employee Count > 30 Hrs	Total Hours < 30 per Employee	Equivalent	Total FTEs
4/24/2020	46	60	2	48
5/8/2020	46	60	2	48
5/22/2020	46	60	2	48
6/5/2020	46	60	2	48
AVERAGE				48



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Example FTE reduction calculation for TUV, Inc.:

- PPP Loan = \$100,000
- Eligible costs before reductions = \$105,000
- $48/50 = 0.96$ (reduction in FTEs)
- $0.96 - 1 = -0.04$
- $105,000 * -0.04 = -4,200$ (reduction in eligible costs)
- $105,000 - 4,200 = 100,800$ (reduced eligible costs)
- Reduced eligible costs exceed loan amount so entire loan of \$100,000 is still forgiven.



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You are exempt from the reduced FTE reduction if:

- On April 26, 2020, you had a reduction in FTEs as compared to the number of FTEs on February 15, 2020; and
- You restore your FTE number back to February 15, 2020 levels not later than June 30, 2020.



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If individual employee compensation is reduced by more than 25% you will need to reduce your eligible costs as follows:

- Determine each employee's average pay for the 1st quarter of 2020 and for the 8-week covered period.
- For each employee with a reduction greater than 25% of their 1Q 2020 pay, determine the reduction amount in excess of 25%.
- Reduce your eligible costs by the sum of each employee's excess reduction.
- Only count employees who earned less than \$100,000 during 2019



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Example compensation reduction calculation for XYZ, Inc.:

- PPP Loan = \$100,000
- Eligible costs before reductions = \$95,000
- XYZ, Inc. pays employees monthly. John received an average monthly salary of \$6,000 in 1Q 2020, and an average salary of \$4,000 for April and May 2020.
- 75% of John's 1Q 2020 average salary is \$4,500.
- John's salary was reduced by \$500 in excess of 25% for 2 pay periods, so eligible costs are reduced by \$1,000, resulting in \$94,000 of the loan being forgiven.



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You are exempt from the reduced individual employee compensation reduction if:

- On April 26, 2020, an employee had a reduction in pay compared to their pay on February 15, 2020; and
- You restore their pay back to February 15, 2020 levels not later than June 30, 2020.



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Considerations for self-employed individuals:

- In determining eligible payroll costs for the owner, the 2019 Schedule C profit will be used, capped at \$15,385.
- No benefits for the owner will be included.
- Employee payroll costs is not treated differently.
- Other eligible costs also includes fuel for business vehicles as utilities, and the lease payment or interest portion of auto finance purchases.



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FAQs

- What do I do if my employees can't work?
- Can I pay my employees bonuses?
- Can I hire new employees?
- What are transportation costs for businesses?
- Can I include waste management in utilities?
- Can I make an extra rent payment?



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What you should be doing now:

- Determine your average number of FTEs from 2/15/19-6/30/19 and 1/1/20-2/29/20
- Maintain documentation for and track payments of eligible costs paid during the 8-week covered period (payroll records, cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments).



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Questions?

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