



Paycheck Protection Program – Maximizing Loan Forgiveness

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Our Presenter



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Agenda

- » Background
- » Reduction Calculations
- » Examples
- » Other Considerations
- » Questions

Paycheck Protection Program (PPP)

» Background

- The government's intention with PPP was for companies to use the loan proceeds to retain workers, pay rent or mortgage interest, and utility expenses for businesses impacted by COVID-19.
- Forgiveness is an attractive aspect of PPP
- Borrowers are focused on maximizing Forgiveness
- Forgiveness guidance was due to be released on 4/27/2020 – numerous unanswered questions exist without this guidance
- As of 5/7/2020 no guidance has been issued except that there are promises that it will be out before weeks end – fingers crossed

Paycheck Protection Program (PPP)

» Background

- Borrower will apply for forgiveness directly with their lender
- SBA is providing lenders 60 days to approve requests.
- No known due date for forgiveness
- Documentation will be required to substantiate expenditures
- Loans over \$2 million to be audited

Paycheck Protection Program (PPP)

» Loan Forgiveness (eight-week period)

- Employee payroll costs including salary, wages and tips up to \$100,000 of annualized pay per employee
- Covered employee benefits (not owners) including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (i.e. unemployment insurance)
- Owner Compensation replacement, calculated based on 2019 net profit amounts (8weeks/52 weeks)
- Rent payments on lease agreements in force before 2/15/2020
- Utility payments under service agreements dated before 2/15/2020

Payroll Expenses

- » Salary, wages, commissions or similar forms of compensation
- » Cash tips or equivalent
- » Payment for vacation, parental, family, medical or sick leave (exclusive of FFCRA credits)
- » Severance payments
- » Employee benefits consisting of group health care coverage and retirement
- » Payment of state and local taxes assessed on compensation

Other Expenses

- » Mortgage interest and other debt obligations
- » Rent payments
- » Utility payments
 - Electricity
 - Gas
 - Water
 - Telephone
 - Transportation
 - Internet

Reduction Calculations



- Loan origination date = date the PPP loan was funded
- Forgiveness period = 8 week period beginning on the loan origination date
 - Note – many loan agreements are dated several days prior to the loan origination date
- Reduction Calculations –
 - FTE reduction calculation - Borrower must compare the average number of FTEs during the 8 week forgiveness period to:
 - A. Average FTEs from February 15, 2019 to June 30, 2019 or
 - B. Average FTEs from January 1, 2020 to February 29, 2020 or
 - C. FTEs on June 30, 2020 to FTEs on February 15, 2020

Reduction Calculations



– Wage reduction calculation

- Borrower must compare employee wages during the 8 week Forgiveness period to annualized 2019 wages or *potentially quarter 1 2020 wages*
 - If an employee's wages during the 8 week Forgiveness period are reduced by more than 25%, that employee's wages are subject to a reduction = % wage reduction experienced by the employee.
 - i.e. if employee A's annualized wages in 2019 were \$75,000 and during the 8 week Forgiveness period that same employee's annualized wages were \$39,000, the employee's wages would have been reduced by 48%. Result would be a 48% Forgiveness wage reduction for that employee.
 - The borrower is eligible for relief from the wage reduction provision if employee's wages at 6/30/2020 have been restored to 2/15/2020 levels

Scenario A

Loan Forgiveness Calculator Worksheet

For 8 weeks subsequent to loan initiation

Payroll	Week 1	Week 8	Avg / Sum
# of FTE's	165	325	216
Include:			
Salary & Wages	\$ 194,118	\$ 382,353	\$ 2,029,412
Group health care benefits including premiums	\$ 12,375	\$ 24,375	\$ 129,375
Retirement benefits	\$ 2,912	\$ 5,735	\$ 30,441
State & Local payroll tax	\$ 971	\$ 1,912	\$ 10,147
Less:			
Payroll costs in excess of \$100,000 paid to each employee	\$ (30,000)	\$ (30,000)	\$ (240,000)
<u>Qualified family leave wages under section 7001 or 7003</u>	\$ (2,700)	\$ -	\$ (14,100)
Total Payroll	\$177,675	\$384,375	\$ 1,945,275

Scenario A

Mortgage Interest	\$ 69,500
Rent	\$ 1,000,000
Utilities	<u>\$ 140,000</u>
Total Other Costs	\$ 1,209,500
Total Payroll Costs	<u>\$ 1,945,275</u>
Total Potential Forgivable Costs	<u>\$ 3,154,775</u>

Scenario A



<i>Employees with annualized salary <\$100k in 2019</i>	<i>Annualized compensation rate in 2019</i>	<i>Gross wages paid to employee in 8 weeks subsequent to loan origination</i>	<i>Annualized compensation 8 weeks subsequent to loan origination</i>	<i>Percentage Decrease</i>	<i>Amount not forgivable *</i>
Employee 1	\$ 75,000	\$ 6,000	\$ 39,000	48.00%	\$ 2,880.00
Employee 2	\$ 70,000	\$ 5,800	\$ 37,700	46.14%	\$ 2,676.29
Employee 3	\$ 65,000	\$ 5,400	\$ 35,100	46.00%	\$ 2,484.00
Employee 4	\$ 60,000	\$ 5,200	\$ 33,800	43.67%	\$ 2,270.67
Employee 5	\$ 55,000	\$ 4,800	\$ 31,200	43.27%	\$ 2,077.09
Employee 6	\$ 50,000	\$ 3,200	\$ 20,800	58.40%	\$ 1,868.80
Employee 7	\$ 45,000	\$ 3,000	\$ 19,500	56.67%	\$ 1,700.00
Employee 8	\$ 40,000	\$ 3,000	\$ 19,500	51.25%	\$ 1,537.50
Employee 9	\$ 40,000	\$ 3,000	\$ 19,500	51.25%	\$ 1,537.50
Employee 10	\$ 40,000	\$ 3,000	\$ 19,500	51.25%	\$ 1,537.50
Total Not Forgivable					\$ 20,569.34

Scenario A

Loan Forgiveness Calculator

SBA Loan Amount (PPP)	\$ 6,800,000
Business Payroll	\$ 1,945,275
Mortgage Interest	\$ 69,500
Rent Payments	\$ 1,000,000
Utility Costs	\$ 140,000
Loan Forgiveness (before required reductions)	\$ 3,154,775

Reduction in Loan Forgiveness

Monthly FTE's during "covered" period (8 weeks subsequent)	216
Monthly Avg FTE's for the period Feb 15 to Jun 30, 2019	500
Monthly Avg FTE's for the period Jan 1 to Feb 29, 2020	480
# of FTE's at February 15, 2020	480
# of FTE's at June 30, 2020	330
Percentage Decrease	-55.1%
FTE Loan Reduction	\$ (1,737,591)
Individual employee comp reduced by 25% or more	\$ (20,569)
Total Loan Reduction	\$ (2,319,235)
Total Loan Forgiveness	\$ 835,540

Scenario A



» Summary

- Failure to restore headcount dramatically impacts forgiveness (55.1% decrease in overall Forgiveness costs)
- Failure to maintain a 75% minimum of payroll costs results in further reduction
 - Other Costs = \$1,209,500, however only \$561,075 can be considered due to payroll being too low
- Wage reductions in excess of \$25k further pressure the Forgiveness calculation
- \$6,800,000 loan, with \$3,154,775 of qualifying expenses requires \$5,964,460 of repayment

Scenario B

Loan Forgiveness Calculator

SBA Loan Amount (PPP)	\$ 6,800,000
Business Payroll	\$ 4,505,475
Mortgage Interest	\$ 69,500
Rent Payments	\$ 1,000,000
Utility Costs	\$ 140,000
Loan Forgiveness (before required reductions)	\$ 5,714,975

Reduction in Loan Forgiveness

Monthly FTE's during "covered" period (8 weeks subsequent)	467
Monthly Avg FTE's for the period Feb 15 to Jun 30, 2019	500
Monthly Avg FTE's for the period Jan 1 to Feb 29, 2020	480
# of FTE's at February 15, 2020	480
# of FTE's at June 30, 2020	479
Percentage Decrease	-2.8%
FTE Loan Reduction	\$ (159,245)
Individual employee comp reduced by 25% or more	\$ (20,569)
Total Loan Reduction	\$ (179,815)
Total Loan Forgiveness	\$ 5,535,160

Scenario B



» Summary

- Increasing the average FTEs to 467 results in substantially greater Forgiveness
 - Lower overall payroll costs negatively impact Forgiveness
- A greater proportion of Payroll Costs results in all Other Costs being forgivable
 - 79% of eligible costs are payroll costs, which allows borrower to utilize all Other Costs

Scenario C – The Hail Mary



Loan Forgiveness Calculator

SBA Loan Amount (PPP)	\$ 6,800,000
Business Payroll	\$ 1,945,275
Mortgage Interest	\$ 69,500
Rent Payments	\$ 1,000,000
Utility Costs	\$ 140,000
Loan Forgiveness (before required reductions)	\$ 3,154,775

Reduction in Loan Forgiveness

Monthly FTE's during "covered" period (8 weeks subsequent)	216
Monthly Avg FTE's for the period Feb 15 to Jun 30, 2019	500
Monthly Avg FTE's for the period Jan 1 to Feb 29, 2020	480
# of FTE's at February 15, 2020	480
# of FTE's at June 30, 2020	480
Percentage Decrease	0.0%
FTE Loan Reduction	\$ -
Individual employee comp reduced by 25% or more	\$ -
Total Loan Reduction	\$ (561,075)
Total Loan Forgiveness	\$ 2,593,700

Scenario C – The Hail Mary



» Summary

- Financial assumptions in Scenario C are the same as Scenario A
- Assume 6/30/20 FTEs = 2/15/20 FTEs (the Hail Mary)
- Assume 6/30/20 wages are restored to 2/15/20 levels
- Other Costs continue to be limited
- 100% Forgiveness does not occur due to inadequate Payroll Costs

Takeaways

- Borrowers whom do not plan will have difficulty meeting the FTE thresholds –
 - You cannot receive the money on Tues and wait until next Weds to bring back employees
- Failure to maintain pre-crisis level payroll costs presents challenges to Forgiveness
- Depending on the 6/30/20 FTE and Wage restorations might be a long shot – i.e. it is difficult to predict that employment levels will be restored on 6/30/20
- Borrowers should use the Forgiveness calculator to plan and manage expectations
- Not all employment costs are forgivable – workers compensation, general liability, FICA - *friction costs*

Other Considerations



» Questions and Planning Opportunities

- What period are the costs based upon when calculating Forgiveness? i.e. payment date vs. date incurred
- Can accrued rent or interest be included on arrangements where the borrower has entered into a deferment arrangement with the landlord or the bank?
- Can expenses be bunched? i.e. pay 4 months of rent, or 9 weeks of payroll during the Forgiveness period
- How are FTEs calculated?
 - Employee whom works 30 hours per week, plus
 - Employees whom work less than 30 hours per week that can be combined to equal one FTE
- If the group health plan is partially self-funded, what costs are Forgivable? Actual claims costs? Cobra rate? Other?

Other Considerations



- Are wages in the wage reduction calculation compared to 2019 wages or quarter 1 2020 wages?
- Is interest expense on non-mortgage debt in existence prior to 2/15/20 allowed in the Forgiveness calculation?
- Are leases of personal property allowed in the Forgiveness calculation?
- Will there be restrictions on related party leases?
- SUTA contributions are made quarterly, does the entire quarterly contribution count if paid during the Forgiveness period?
- Can wages of employees making < \$100k be increased to maximize forgiveness during the Forgiveness period?
- Commissioned employees will earn less during the Forgiveness period as result of the economic slowdown, what should we do?

Other Considerations



- Can I put my spouse/kids on payroll to increase FTEs and generate additional payroll costs?
- Can the Employer pay the Employee portion of group health benefits during the Forgiveness period?
- Can the annual employer retirement plan contribution for 2019 be contributed during the 8 week Forgiveness period?
- Are payments of non-qualified deferred compensation includable as a retirement cost?

Questions & Answers