



Paycheck Protection Program – Loan Forgiveness Application

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step forward →

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Our Presenters

Andrew Lattimer, CPA



alattimer@blumshapiro.com



860.570.6327

Agenda

- » Where are we now, brief recap
- » Discuss terminology of Application and clarifications / changes we know now
- » Tool Kit Demonstration
- » 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 pay 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; however, the Forgiveness Application addressed some
- HEROES Act could change things / Additional Rescue Program
- <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>

PPP Loan Forgiveness Application

- » 11 Pages
- » Came out May 15th. Expires as of now on 10/31/2020
- » Will be submitted to the Lender
- » Calculation Form, Certifications / Representations, SCH A, SCH A Worksheet, and Demographic Information



Loan Forgiveness Application

- » **PPP Schedule A / Worksheet to Schedule A**
- » Calculate eligible compensation amounts here
- » Cap employee compensation at \$100,000 here
- » Determine the number of FTEs
- » Determine if a reduction is necessary due to the number of FTEs above
- » Maximum forgiveness is eligible payroll costs % 75%. (Page 3 line 10)

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Covered Period

- » Commences on the date you received the loan (not the date your loan agreement is dated)
 - The instructions indicate that if you received money on one day, that you can use your payroll paid on the following day towards forgiveness, even though that payroll period would have been prior to the loan disbursement date.
 - Payroll earned during the last pay period of the 8-week period counts towards forgiveness as long as it is paid in the next regular payroll following the end of the 8-week period (allowed for alternative payroll covered period is elected as well)

Loan Forgiveness Application



- » **Alternative Payroll Covered Period**
- » For administrative convenience, borrowers with bi-weekly or more frequent payroll periods can elect to calculate eligible payroll costs using the eight-week (fifty-six day) period beginning with the first day of their first pay period following their PPP loan disbursement date.
- » Example: XYZ has PPP loan proceeds deposited on May 10th but their next payroll begins May 16th. The 56 day covered period would begin on May 16th for eligible payroll expenses only.
- » Have to elect the Alternative Payroll Covered Period.

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» Non Payroll Costs

- Must be paid during the 8-week forgiveness period
 - Or incurred during the 8-week period and paid on the next regular due date even if that due date is outside of the 8-week period
- » *These include mortgage interest and rental payments on real and personal property as well as utilities.*
- » *Cannot exceed 25% of the total forgiveness amount.*



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- » Reductions to Forgiveness
 - Wage Reduction
 - FTE Reduction



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» Wage Reduction

- Applies to employees who received compensation from the Borrower at an annualized rate of less than \$100,000 in 2019 or were not employed by the Borrower in 2019
- Annualized salary (or hourly wage) from the Forgiveness Period (a) is compared to average annual salary (or hourly wage) between January 1, 2020 and March 31, 2020
 - If the Forgiveness Period annualized salary (or hourly wage) exceeds 75% of the January 1, 2020 to March 31, 2020 wages, there is no reduction
 - If less than 75%, the borrower is potentially subject to the Wage Reduction calculation

(a) Forgiveness Period = Covered Period or the Alternative Payroll Covered Period chosen by the borrower

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» Wage Reduction Safe Harbor

- Compare annual wages at February 15, 2020 to annual wages at June 30, 2020
 - If June 30 wages equal or exceed February 15, Borrower has met the safe harbor and there is no reduction

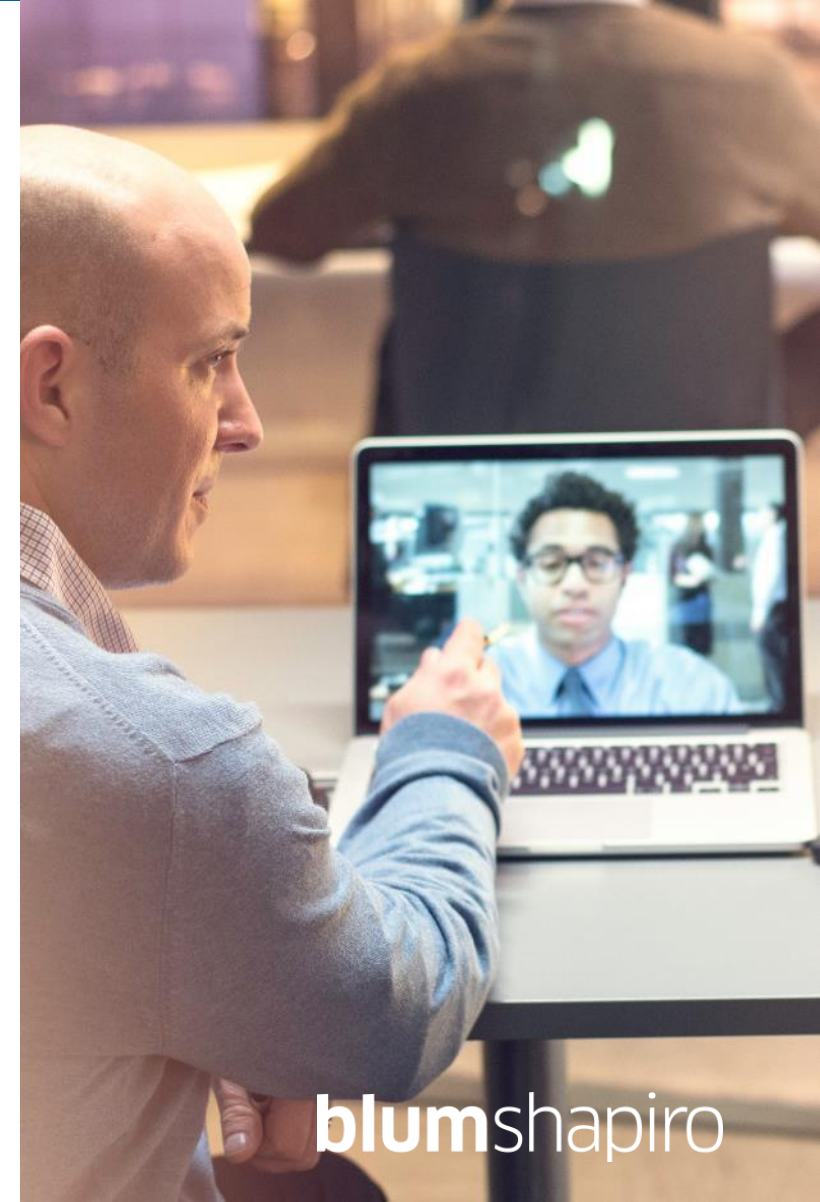
» Planning opportunity

- Employees who received compensation at an annualized rate in excess of \$100,000 in any pay period in 2019 are not subject to the Wage Reduction calculation
 - If an employee received compensation in excess of \$1,924 (weekly pay period) in any 2019 pay period they are not subject to this calculation

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» Average FTE Computation

- 1 FTE = 40 Hours per week
- Each employee who worked 40 or more hours = 1 FTE, each part-time employee can be converted to an FTE by dividing their hours by 40, or:
- Simplified Method – each part-time employee can be counted as .5 regardless of hours worked under 40



Example

	Normal	Simplified
50 hours per week during the covered period	1	1
40 hours per week	1	1
30 hours per week	0.8	0.5
23 hours per week	0.6	0.5
10 hours per week	0.3	0.5
Total	3.7	3.5

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» FTE Reduction Calculation

- Loan forgiveness will be reduced if average weekly FTEs during the Forgiveness Period are less than the FTEs during the Reference Period
- Reference Period
 - February 15, 2019 to June 30, 2019 or
 - January 1, 2020 to February 29, 2020 or
 - Seasonal Employers – either of the above or any consecutive 12-week period from May 1, 2019 to September 15, 2019

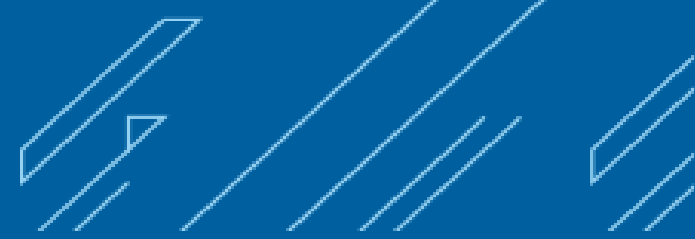
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» FTE Reduction Exceptions

- Headcount will not be reduced for any employees that received a good faith offer to be rehired, but the employee rejected that offer
- Employees fired for cause, voluntarily resigned or voluntarily required and received a reduction in hours will not impact the reduction calculation
- These exceptions may only be used if the position was not filled by a new employee

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» FTE Reduction Safe Harbor #1

– Borrower is exempt from the FTE reduction if it meets the following conditions:

1. Borrower **reduced** its FTE employee levels in the period beginning on February 15, 2020 and ending April 26, 2020; and
2. Borrower restored its FTE employee levels **no later** than June 30, 2020 to employee levels in the pay period that included February 15, 2020

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» FTE Reduction Safe Harbor #2

– Borrower is exempt from the FTE reduction if they meet the following conditions:

1. Borrower did not reduce the number of employees between January 1, 2020 and the end of the Covered Period; or
2. Borrower has not reduced the averaged paid hours of its employees between January 1, 2020 and the end of the Covered Period

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» Loans in excess of \$2 million

- Borrowers who received loans in excess of \$2m must check this box
- Borrowers must consider affiliates when determining if this box should be checked
 - *If the Borrower was exempt from the affiliation rules as a result of being a franchise, as an example, they also appear to be exempt from including those affiliations when determining if this box needs to be checked*



» Answers to Common Questions

- We have an annual profit-sharing contribution for 2019 that has not yet been made. Can we make this contribution during the Forgiveness Period and be eligible for forgiveness?
 - Maybe
 - May limit the deductibility of the contribution

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» Answers to Common Questions

- Will interest paid on non-real estate obligations be eligible for forgiveness?
 - Interest paid on any business mortgage obligation on real or personal property incurred before February 15, 2020 will be eligible for forgiveness
 - Prepayments of interest and principal payments are not eligible

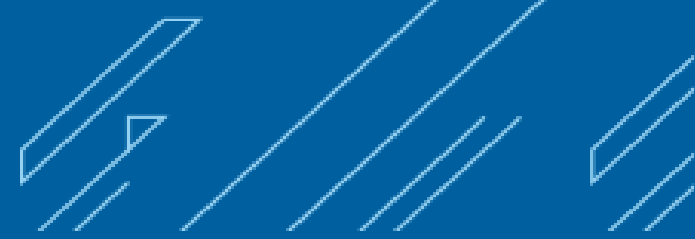
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» Answers to Common Questions

- Will lease or rental payments of personal property be eligible for forgiveness?
- Payments for rent or lease obligations pursuant to lease agreements for real or personal property in force before February 15, 2020 will be eligible for forgiveness
- Note: eligible 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, even if the billing date is outside of the Covered Period

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» Answers to Common Questions

- Our employees are working from home; will reimbursements to employees for usage of their home internet, electricity or other utilities be eligible for forgiveness?
- Most likely no, due to this arrangement being in place after February 15, 2020

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» Answers to Common Questions

- Can the owners' compensation be increased to maximize forgiveness?
- Line 9 of Schedule A limits owners' compensation to the lower of their 8-week equivalent of 2019 compensation or \$15,385

Loan Forgiveness Application Tool Kit

Loan Forgiveness Application Tool Kit

- » Loan forgiveness application tool kit can be used to support the calculation of forgiveness
- » The tool kit is available for download on our website at:
<https://www.blumshapiro.com/coronavirus/>



Loan Forgiveness Application Tool Kit

- » Live demo of how to use the tool kit

Questions & Answers