PPP Fact Sheet (revised May 28, 2020)

Paycheck Protection Program | Loan Forgiveness

McKONLY & ASBURY
CPAs & Business Advisors

What time period will "count" towards the debt forgiveness?

(Revised) The measurement period to determine what is forgivable is 8 weeks after receiving the loan. However, while the covered period is 8 weeks, revised guidance provided in the forgiveness application allows for certain activity outside of the 8-week period. Businesses can spend the proceeds on eligible costs incurred AND costs paid during the covered period. What this means is that borrowers may include eligible costs incurred before the covered period, but paid during the covered period. On the back-end of the covered period, the borrower may incur eligible costs that are not paid until after the covered period. Borrowers should pay particular attention to eligible cost activity leading up to the covered period, during the covered period and after the covered period to make sure all eligible costs have been captured in the forgiveness calculation.

Borrowers may use an Alternative Payroll Covered Period. Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following their PPP loan disbursement date. For example, if the borrower received its PPP loan proceeds on Monday, April 20, and the first day of its first pay period following its PPP loan disbursement is Sunday, April 26, the first day of the alternative payroll covered period is April 26 and the last day of the alternative payroll covered period is Saturday, June 20. Borrowers should be aware that the alternative date applies to payroll costs only. 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 after the covered period.

What is included in eligible expenses?

The most important step is to make sure that a business has a plan for how the proceeds will be spent in accordance with the program guidelines. This creates a "pool" of dollars available for forgiveness, subject to other conditions (as described below).

What is included in eligible expenses?

- Payroll costs (as defined by the calculation used to determine the loan amount);
- Costs related to the continuation of group term health care benefits, during periods of paid sick, medical, or family leave, and insurance premiums;
- Interest payments on a mortgage incurred in the ordinary course of business on real or personal property and was in existence on February 15, 2020;
- Rent payments under leasing agreements in existence on February 15, 2020;
- Utility payments for electricity, gas, water, transportation, telephone or internet for which service was in existence on February 15, 2020;
- Refinancing an SBA Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020.

Payroll costs include:

- Wages, commissions, salary, or similar compensation
  - All cash compensation
  - Includes housing stipends and allowances;
- Payment for vacation, parental, family, medical, or sick leave;
- Allowance for dismissal or separation;
- Payment for provision of group health care benefits, including premiums;
- Payment of any retirement benefits; and
- Payment of state or local tax assessed on the compensation of employees.

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Payroll costs do not include:

- Payments to an independent contractor.
- Cash compensation in excess of $100,000.
- The employer's share of federal payroll taxes.
- Qualified sick leave and qualified parental leave wages for which credit is allowed under the Families First Coronavirus Response Act (FFCRA) and Employee Retention Credit program.

Self-employed eligible costs for loan forgiveness include:

- Owners compensation replacement
  - Calculated based on 2019 net profit from Line 31 of Schedule C
  - 8/52nds of 2019 net profit
- Employee payroll cost as outlined
- All other non-payroll costs as outlined, including:
  - Interest on auto loans for vehicles used in the business
  - Gas for business vehicles
  - Must have been entitled to claim a deduction for such expenses on 2019 Form 1040 Schedule C

What is the 75/25 rule?

(Revised) While there are costs in addition to payroll that qualify as eligible expenses, not more than 25 percent of the loan forgiveness amount may be attributable to non-payroll costs (mortgage interest, rent and utilities). Thus, at least 75% of the loan forgiveness amount must be used for payroll costs (as defined above).

While this language was not originally in the CARES Act, the Small Business Administration ("SBA") Administrator has determined in consultation with the Secretary of Treasury that the 75 percent is an appropriate percentage in light of the Act's overarching focus on keeping workers paid and employed. Further, the Administrator and the Secretary believe that applying this threshold to loan forgiveness is consistent with the structure of the Act, which provides a loan amount 75 percent of which is equivalent to eight weeks of payroll (8 weeks / 2.5 months = 56 days / 76 days = 74 percent rounded up to 75 percent).

Limiting non-payroll costs to 25 percent of the forgiveness amount will align these elements of the program, and will also help to ensure that the finite appropriations available for PPP loan forgiveness are directed toward payroll protection.

Example of loan forgiveness calculation:

- ABC Company had $600,000 of total payroll costs ($50,000 monthly) for 2019, resulting in a loan of $125,000 (2.5 times $50,000).
- During the 8-week covered period, ABC Company incurs and pays the following costs:
  - Payroll costs of $95,000
  - Rent of $20,000
  - Utilities of $5,000
- Under this calculation, ABC Company would be eligible for forgiveness of $120,000 (of the total loan amount of $125,000).
  - *(Revised)* ABC Company meets the Payroll requirement of 75% minimum used for Payroll ($90,000 calculated 75% versus $95,000 actually spent).
  - Remaining eligible costs for rent and utilities do not cover the remaining loan amount, leaving a loan balance of $5,000.

What if I have laid off employees or reduced pay?

There are two potential reductions to the pool of forgivable dollars. The reduction in workforce penalizes an employer that does not maintain their workforce, and the salary reduction penalizes an employer that does not maintain employee salaries compared to prior COVID-19 pandemic rates.

Workforce Reductions (Revised)

The workforce reduction adjustment is to incentivize employers to maintain certain Full-Time Equivalent employee (FTE) levels. See FTE section below for calculation of FTEs. Therefore, the workforce reduction calculation looks to determine whether an employer has retained its workforce.

The non-seasonal workforce reduction calculation is calculated as:

Average Weekly FTEs from Covered Loan Period (8-week loan period)

Divided by:

Average Weekly FTEs from the Measurement Period

If the calculation result is less than 100%, loan forgiveness will be reduced. If the calculation result is equal to or greater than 100%, there will be no reduction in your loan forgiveness due to headcount.

The measurement period FTEs may be calculated using one of the following dates at the discretion of the employer:

- February 15, 2019 through June 30, 2019; or
- January 1, 2020 through February 29, 2020
- For seasonal employers, 12 week consecutive period between May 1, 2019 and September 15, 2019

Note: Employers should select the measurement period with the lower FTE count. Selecting the measurement period with the lower FTEs will result less (or no) reduction to your PPP loan for headcount.

For example,

Covered Period Average Weekly FTEs	50.0
Measurement Period	
a) February 15, 2019 through June 30, 2019 Average Weekly FTEs	52.5
b) January 1, 2020 through February 29, 2020 Average Weekly FTEs	47.5

Selecting Measurement Period A will result in a loan reduction of 9.5% (50.0 / 52.5). Selecting Measurement Period B will result in NO loan reduction (50.0 / 47.5).

Note that if you re-establish FTE levels by 6/30/20, you will not be penalized for an FTE reduction (see Re-Hire section).

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Salary Level Reductions (Revised)

The loan forgiveness can be further reduced if a company has reduced employees' (making less than $100,000) pay by more than 25%. Example assumes that the saft harbor criteria are not met. For example:

Hourly Employee with Annualized Salary of less than $100,000 in 2019	
A - Average annual hourly wage during the Covered Period or Alternative Covered Period	$15.00
B - Average annual hourly wage between January 1, 2020 and March 31, 2020	$25.00
C - 75% of B	$18.75
D – Hourly wage decrease greater than 75% (C-A)	$3.75
E – Averaged hours worked per week between 1/1/20 and 3/31/20	32
F – Multiply D * E	$120.00
G – Hourly wage reduction from forgiveness - multiply F * 8 weeks	$3,840.00

Re-Hiring (Revised)

Note however that you have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020 to avoid such penalties.

An FTE reduction exception is available for:

(1) Any positions for which the borrower made a good-faith, written offer to rehire which was rejected by the employee; and

(2) Any employees that were:

a. Fired for cause

b. Voluntarily resigned, or

c. Voluntarily requested and received a reduction of their hours

Any FTE reductions in these cases do not reduce the borrowers loan forgiveness.

What documentation will I need to provide to my bank for the forgiveness? (Revised)

Payroll:

- Completed Paycheck Protection Program Loan Forgiveness Application
- Documentation verifying the eligible cash compensation and non-cash benefit payments from the covered period or the alternative covered period consisting of:
  - Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.

- Tax forms for the periods that overlap with the covered period or the alternative payroll covered period:
  - Payroll tax filings reported, or that will be reported, to the IRS (Form 941); and
  - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the borrower included in the forgiveness amount.

FTE:

Documentation showing the average number of FTE employees for both the measurement period. The measurement period is selected by the borrower. The measurement period may be:

- February 15, 2019 to June 30, 2019
- January 1, 2020 to February 29, 2020
- In the case of a seasonal employer, the average number of FTE employees on payroll per month employed by the borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve-week period between May 1, 2019 and September 15, 2019.

Documents may include:

- Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941)
- State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- Documents submitted may cover periods longer than the specified time period.

Nonpayroll:

- Documents verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the covered period:
  - Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying payments during the covered period; or lender account statements verifying interest amounts and eligible payments.
  - Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying payments; or lessor account statements verifying eligible statements.
  - Business utility payments: Copy of invoices, cancelled checks, or account statements verifying eligible payments.

Refer to the Loan Forgiveness Application for other documentation that must be maintained, but may not be required to be submitted by your bank.

What happens if a portion of my loan is not forgiven?

- The principal amount of the loan and any accrued interest that is not forgiven will continue as a loan on its original terms, including:
  - A maturity date which is two years from the date of disbursement
  - No payment during the first six months
  - An interest rate of one percent per annum
  - No prepayment penalty
- Alternate option - to pay back remaining loan balance and accrued interest immediately after loan forgiveness is determined.

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How do I calculate a full-time equivalent employee (FTE)? (Revised)

Borrowers may consider two methods for calculating FTE's. We recommend applying both methods to both the measurement period and the covered period.

Method 1: 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. Example:

Employee	Average Hours Paid Per Week During 8-week Covered Period	FTE Base	FTE	Comments
Dave	45	40	1	Although 45/40 > 1, the cap is 1 FTE per employee
Mark	40	40	1	
Janice	32	40	.80	
Elizabeth	10	40	.30	Calculation was .25 and rounded to the nearest tenth was .30
Total FTE's			3.10	

Method 2: 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. Example:

Employee	Average Hours Paid Per Week During 8-week Covered Period	FTE Base	FTE	Comments
Dave	45	40	1.0	Although 45/40 > 1, the cap is 1 FTE per employee
Mark	40	40	1.0	
Janice	32	40	.50	Less than 40 hours per week would result in .50 FTE under the simplified method
Elizabeth	20	40	.50	Less than 40 hours per week would result in .50 FTE under the simplified method
Total FTE's			3.00	

Questions? Contact us at covid19@macpas.com and visit our COVID-19 Resource Center at www.macpas.com/covid-19