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## COVID-19 UPDATE | APRIL 20, 2020

### PAYCHECK PROTECTION PROGRAM: DETERMINING LOAN FORGIVENESS

The Small Business Association's (SBA) Paycheck Protection Program (PPP) allows eligible businesses to apply for forgivable loans up to \$10 million to cover operating costs such as payroll, mortgage interest, rent and utility payments during the COVID-19 pandemic. Most significantly, these loan amounts may be forgiven in their entirety, as long as certain criteria are met.

In order to qualify for loan forgiveness:

- Loan funds must be used to cover payroll costs, most mortgage interest, rent, and utility costs over the eight-week period starting on the loan funding date
- Employee headcount must be maintained
- Compensation levels for employees earning less than \$100,000 per year must be maintained
- No more than 25% of the forgiveness amount may be used for non-payroll costs

If any of these criteria are not met, or if a business does not use the full amount of the loan within the eight-week period starting on the loan date, a portion of the loan will not be forgiven and must be repaid.

In addition to the use of funds guidelines above, under current guidance provided by the SBA, three areas will be analyzed to determine the amount of your PPP loan eligible for forgiveness—reduction in headcount, reduction in wages, and rehires.

The amount of the loan that qualifies for forgiveness will be calculated as follows:

#### Reduction in Headcount

First, headcount will be analyzed, using the following calculation:

The number of full time equivalent employees (FTEEs) per month during the 8-week period starting on the loan funding date **divided by** the lower of the average number of FTEEs per month from Feb 15, 2019 through June 30, 2019 OR the average number of FTEEs per month from January 1, 2020 through February 15, 2020 times the loan amount **equals** the amount of the loan that qualifies for forgiveness.

#### Reduction in Wages

A dollar amount, calculated as follows, will then be subtracted:

- Identify all employees earning less than \$100,000 who are employed during the 8-week period starting on the loan date. Exclude any employees who in 2019 had a variable pay arrangement, and/or who earned more than \$8,333 in any month.
- For each of these employees, compare their wages rate during the 8-week period to their wages rate for the first quarter of 2020.
- For any of these employees whose wages rate have dropped more than 25%, calculate the wages that employee would have received for the 8-week period at 75% of the Q1 rate, and

- Subtract this total number from the amount of the loan that qualifies for forgiveness.

## Rehires

Rehiring employees can impact your loan forgiveness calculation as follows:

- If by June 30, 2020 the reduction in total FTEs between February 15, 2020 and April 26, 2020 has been restored, the Reduction in Headcount calculation can be ignored; and/or:
- If by June 30, 2020 applicable employees' wages have been restored to amounts as of February 15, 2020, the Reduction in Wages calculation can be ignored.

If both of these conditions are met, and the loan usage guidelines have also been met, then the full loan amount may be forgiven.

The SBA continues to provide updated guidance on the Paycheck Protection Program, and CRR is closely following any new information being released in order to best support our clients in securing PPP loans and maximizing loan forgiveness during the 8-week period post-closing.

Please don't hesitate to contact us at [ppp@crrcpa.com](mailto:ppp@crrcpa.com) with any questions you may have, or visit our COVID-19 Resource Center at [www.crrcpa.com/covid19](http://www.crrcpa.com/covid19) for the latest updates, alerts and impacts.

We're in this together.