PAYCHECK PROTECTION PROGRAM: POSITIONING YOUR BUSINESS FOR MAXIMUM LOAN FORGIVENESS

With an additional $310 billion in funding made available on April 24, 2020, and a second application window opened on April 27, 2020, businesses who weren't able to secure a Paycheck Protection Program (PPP) loan from the Small Business Administration (SBA) during the first round of funding now have another opportunity to do so.

The most significant benefit of the PPP is that up to 100% of the loan is eligible for forgiveness—but only if certain criteria are met during the 8-week period following the loan funding date. These criteria involve the proper use of loan funds, as well as stipulations regarding employee headcount and compensation levels.

It will be imperative to plan ahead and forecast the 8-week period post-closing in order to position your business for maximum loan forgiveness.

CRR presents the following key considerations and recommendations based on current PPP guidance:

Use of Loan Proceeds
To qualify for forgiveness, loan funds may only be used for payroll costs, mortgage interest, rent and utility costs—with at least 75% of funds being used toward payroll costs. Under current guidance, loan funds may only be used for expenses incurred and paid during the 8-week post-funding period in order to qualify for forgiveness.

Qualifying payroll costs include wages, employer contributions to a defined-benefit or defined-contribution retirement plan, employer payments toward an employee healthcare plan, and employer payment of certain state taxes assessed on employee compensation.

Our recommendation: Create and implement a system to track the use of loan funds for expenses incurred and paid during the 8-week period post-closing. Loan funds should not be used to make advance payments, or to pay invoices that were incurred prior to your loan issue date. Keep copies of all supporting documents, including payroll records; invoices and proof of payment for health insurance and retirement plan contributions; lease records and proof of payment for rent; invoices and proof of payment for utilities; and any loan agreements and copies of debt payments made.

Employee Wages
To qualify for forgiveness, no employee wages exceeding $100,000 per year can be paid from the loan funds. For employees making less than $100,000, any reduction in salaries more than 25% as compared to the prior quarter may result in a portion of loan funds being ineligible for forgiveness.

Our recommendation: During the 8-week period post-funding, on an employee-by-employee basis, track the payroll costs and limit them to an annualized salary of $100,000 per employee. You do not *have to reduce an employee's wages to $100,000, but you cannot count the excess wages in the qualified use of funds. For employees making less than $100,000, carefully consider how a reduction in salary will impact your loan forgiveness calculation and weigh the cost vs. benefit before making any decisions. If you have already made pay reductions that result in employee wages being more than 25% lower than the prior quarter, consider reinstating wages to a level that will ensure eligibility, prior to June 30, 2020.*

Employee Headcount
In calculating loan forgiveness, employee headcount will also be analyzed—specifically full-time equivalent employees (FTEEs) during the 8-week period post-funding. If your average number of FTEEs per month during the 8-week period post-funding is less than your monthly average during the period of February 15, 2019 – June 30, 2020 or January 1, 2020 – February 29, 2020, whichever is lower, a portion of your loan funds may be ineligible for forgiveness.

Our recommendation: Prior to reducing your employee headcount, carefully consider how this will impact your loan forgiveness calculation and weigh the cost vs. benefit before making any decisions. If you have already reduced your number of FTEEs, consider rehiring some or all of these employees prior to June 30, 2020. Timing is relevant here. If you do not restore 100% of your FTEE's by June 30, 2020, then the average FTEE's during the 8-week period will be used. This 8-week average needs to be as high as you can get it so rehiring early on is imperative.

Next Steps
If you are currently pursuing or have already been granted a PPP loan, you should familiarize yourself with the PPP forgiveness calculation and estimate your potential forgiveness eligibility in order to come up with a strategic plan. You certainly won't want to wait until after the 8-week period post-funding—when it is too late to change course—to analyze your use of funds and risk reducing your loan forgiveness amount.

CRR can help you forecast your potential loan forgiveness, create a strategic plan to use and track funds, and evaluate and take advantage of any tax relief measures that could impact your business over the 8-week period post-funding and beyond.

We expect to see additional guidance from the SBA in the coming weeks, and we will continue to analyze the guidance we receive and keep you abreast of any updates. If you have any questions, please don't hesitate to contact us at ppp@crrcpa.com, or visit our COVID-19 resource center at www.crrcpa.com/covid19 for additional information.

We're in this together.