

## Paycheck Protection Program Loan Forgiveness

As business owners received their Paycheck Protection Program (PPP) loans, the big question remained on how the forgiveness portion of the loans will work. On Friday, May 15, 2020, the SBA and Treasury released the Loan Forgiveness Application.

The form and instructions explain how to apply for forgiveness of PPP loans. SBA is also expected to soon issue regulations and guidance to further assist borrowers as they complete their applications, and to provide lenders with guidance on their responsibilities

**This overview provides the understanding SVA has on the recently released guidance on:**

*(Note: this information is subject to change based on further clarifications from SBA)*

- Defining Covered Payroll
- Application Timeframes
- Application Definitions
- Forgiveness Amount Calculation
- Documentation Needed

### Defining Covered Payroll

- Option to use eight weeks (or 56 days) from loan disbursement date
  - PPP Loan Disbursement Date = Borrower received the loan proceeds
- -OR-
- You can use an “Alternative Covered Period”
- You can move start date to the date of the first pay period following PPP Loan Disbursement Date

### Application Timeframes

- Must use this same date for **all** application calculations that call for “the Covered Period or Alternative Payroll Covered Period” Currently 8-week covered period ends 6/30/2020. However there has been discussion surrounding extension of this date.
- Application expiration date = October 31, 2020. Not later than 60 days after the date on which a lender receives an application for loan forgiveness under this section from an eligible recipient, the lender shall issue a decision on the application. SBA has 90 days to approve the forgiveness application.

## Application Definitions

### 1. Cash Compensation defined as:

- Gross salaries & wages
- Gross tips
- Commission
- Vacation pay
- Payment for separation of service
- Paid sick leave (not covered under FFCRA)

### 2. Payroll Costs (*Paid and Incurred during covered period*)

- Wages – capped at \$15,385 and excluding FFCRA (Family Leave wages)
- Employer health insurance
  - Currently no clarification on including Dental, Vision, HSA, HRA...
- Employer retirement contributions
- State unemployment insurance

### 3. Average Full-Time Equivalency (FTE) Employees

- Average number of hours paid per week, divided by 40
- Election to use simplified approach –
  - 1.0 for 40 hours a week
  - .5 for anybody fewer than 40 hours a week
- Covered or Alternative Payroll Covered Period
  - 8-week average count
- Base - Reference Period
  - Either
    1. February 15, 2019 to June 30, 2019
    2. January 1, 2020 to February 29, 2020
    3. Or seasonal cases – preceding period or a consecutive twelve-week period between May 1, 2019 and September 15, 2019

### 4. FTE Reduction Exception

- Written offer to rehire during the covered period was rejected or
- Employee was fired for cause, voluntarily resigned, or voluntarily requested a reduction in hours during the covered period

### 5. FTE Reduction Safe Harbor

- Borrower reduced its FTE levels between February 15, 2020 and April 26, 2020, **AND**
- Restored its FTE by not later than June 30, 2020

## 6. Salary/Hourly Wage Reduction Calculation (*Employee by employee analysis*)

- Average Salary or Hourly Wage Rate
  - (1a) Covered Period or Alternative Payroll Covered Period, average salary rate or hourly wage rate
  - (1b) January 1, 2020 – March 31, 2020, average salary or hourly rate
  - Calculate (1a)/(1b), if 75% or greater – OK, if not next step
- Safe Harbor Analysis (Next Step)
  - (2a) Salary/Hourly Wage rate as of February 15, 2020
  - (2b) Average annual salary or hourly wage between February 15, 2020 and April 26, 2020
  - If 2a = or > 2b, continue with reduction analysis
  - (2c) Salary or hourly wage rate June 30, 2020
  - If 2c = or > 2a – OK, otherwise you have a reduction that needs to be calculated in
- The reduction will only be for the reduction amount that exceeds the 25% allowed reduction.
  - Example, if you reduced an employee's salary from \$25 per hour to \$15 per hour, the forgiveness will take a reduction of \$3.75 ( $\$25 \times .75 = \$18.75$  minus \$15) or \$3.75, not the full 40% reduction you have.
- The calculation is for a wage reduction of salary individuals or a per hour rate reduction. If you do not reduce the hourly rate, you would not have a reduction for the hourly employees. If you reduce the salary for employees – this will result in a need to calculate.

## Forgiveness Amount Calculation: Payroll Cost – PPP Schedule A

- **Cash Compensation Payroll Costs from PPP Schedule A – From PPP Schedule A Worksheet**
  - 1) Needs the completion of PPP Schedule A Worksheet for the by employee analysis and the FTE reporting
  - 2) Schedule A Worksheet has two tables
    - Table 1 – employees = to or < \$100,000 wage (or annualized rate) in 2019
    - Table 2 – employees > \$100,000 (excluding owners)
- **Non-Cash Compensation Payroll Costs**
  - 1) Health Insurance
    - Further clarification needed regarding inclusion of an Owner, Partner or Sole Proprietor's paid health insurance
  - 2) Retirement Contributions
    - Further clarification needed regarding inclusion of an Owner, Partner or Sole Proprietor's paid retirement contributions
  - 3) Employer State Unemployment Insurance (SUTA)

- **Compensation to Owners**
  - 1) Limited to \$15,385 – so wage limit only
- **FTE reduction Calculated with Information From Schedule A Worksheet**

## Non-Payroll Cost Amounts

- **Mortgage Interest**
  - Real Property (secured)
  - Personal Property (secured)
- **Rent/Lease payments**
  - Per lease agreement as of February 15, 2020
  - Real and personal property
- **Utilities (Service beginning before February 15, 2020)**
  - Electric
  - Gas
  - Water
  - Transportation
  - Telephone
  - Internet Access
- **Paid or Incurred during Covered Period**
  - Must be paid during the Covered Period
  - Or Incurred during the Covered Period and paid on or before the next regular billing date

## Calculation of Forgiveness

1. Combine payroll and non-payroll costs
2. Subtract salary/hourly wage reduction
3. Next, the smaller of the 3 calculated
  - Combined cost, less wage reduction multiplied by the FTE reduction multiplier
  - PPP Loan amount
  - Payroll cost divided by 75%

## Documentation

- **With Application**
  - Bank Statements or Third-Party Payroll Provider Reports
  - Tax Forms (i.e. Form 941)
  - Payment receipt, cancelled checks or account statements for health insurance, retirement contribution and unemployment insurance

- FTE Documentation Showing:
  - Average # of FTE per month Feb 15 – June 30, 2019
  - Average # of FTE per month Jan 1 – June 30, 2020
  - Seasonal FTE information, if applicable
- Mortgage interest – copy of lender amortization schedule
- Rent – copy of lease and proof of payment
- Utilities – copy of invoices and proof of payment
  
- **Not With Application But Required**
  - Documentation supporting PPP Schedule A Worksheet
  - Documentation of employee offers and voluntary resignation

As you work through your PPP Loan process, reach out to your SVA contact for assistance. They are able to help you with your specific business situation.

This information is based on the SBA information released in the FAQ document dated 5/15/20 and is subject to change based on future clarifications.