



Paycheck Protection Program (PPP) Understanding Forgiveness (based on what we know today)

April 23, 2020

Presented by

Lainie Smith, CPA, MST

Steve Bickert, CPA

STRATEGY | EXECUTION | RESULTS

Concannon Miller
Certified Public Accountants  Business Consultants

Concannon Miller's

COVID-19 Resource Center

Up-to-date information on how it affects
your business and you.

Additional information is available on our website at
www.concannonmiller.com under the “Resources” tab.

DISCLAIMER

The content of this presentation is intended for educational purposes only.

This presentation provides a brief summary based on our understanding and interpretation of current law. All tax references are to federal tax law only, unless otherwise stated.

The information contained in this presentation is general in nature and is based on authorities that are subject to change. It is not, and should not be construed as accounting, legal or tax advice or opinion provided by Concannon Miller & Co., P.C. The material presented may not be applicable to, or suitable for, specific circumstances or needs, and may require consideration of non-tax factors and tax factors not described herein. Contact Concannon Miller & Co., P.C. or another tax professional prior to taking any action based upon this information. Changes in tax laws or other factors could affect, on a prospective or retroactive basis the information contained herein; Concannon Miller & Co., P.C. assumes no obligation to inform the reader/attendee of any such changes.

The material presented in this presentation is not intended to, and cannot be used to, avoid IRS penalties. This material supports the marketing and promotion of accounting services. Seek advice based on your particular circumstances from independent tax, legal accounting, insurance, investment and financial advisors.



You've Applied for PPP Loan- now what?

Paycheck Protection Program (PPP)



Weeks to spend these loan proceeds on eligible costs



➔ 8- weeks begin as soon as you receive loan proceeds



Paycheck Protection Program (PPP)

Establish a Clean Trail

- ➔ If you haven't received funding yet, set up a new account and have PPP proceeds deposited directly into the new account
- ➔ If you've already deposited PPP proceeds into an existing account:
 - Segregate PPP cash from operating cash
 - Make direct transfer of the exact amount of loan proceeds into a special PPP account
- ➔ Know your target forgiveness dollars for payroll (75%) and non-payroll costs (25%) related to the PPP loan
- ➔ Monitor staffing and salaries levels



Paycheck Protection Program (PPP)

Plan for Forgiveness

- ➔ Loans can be forgiven in full but good recordkeeping is critical
- ➔ **For the next eight weeks**, you should transfer cash in specific increments for these costs to your operating and payroll accounts.
- ➔ Utilize CMCo Expense Tracker to maintain a record of all expenses. Create a PPP Expense Tracking folder on your network – scan and save PDF proof for every expense paid.
- ➔ [CMCo Expense Tracker](#)



Paycheck Protection Program (PPP)

Eligible Costs

- ➔ What are eligible payroll costs?
 - Wages, commissions, salaries, and vacation (up to \$100,000 annualized salary)
 - Group health benefits including insurance premiums
 - Retirement benefits
 - State & local employer taxes paid by employer (e.g. SUTA)
 - Family, medical, and sick leave (**other than** COVID-related required paid sick leave/FML under the FFCRA)

➔➔➔ **Minimum of 75% of loan funds must be used on payroll costs to be considered for full forgiveness**



Paycheck Protection Program (PPP)

Eligible Costs (Cont'd)

- ➔ What non-payroll costs qualify?
 - Rent (on leases in place prior to 2/15/2020)
 - Utilities including water, gas, electricity, telephone, internet, and transportation (for service agreements entered into prior to 2/15/2020)
 - Interest on mortgages on real or personal property (on loans incurred before 2/15/2020)



No more than 25% of the forgiveness amount can be for non-payroll costs



Paycheck Protection Program (PPP)

Determining Maximum Forgiveness Amount

- 1) Add up total qualifying payroll and non-payroll costs (i.e., mortgage interest, rent, utilities) for the 8-week period after proceeds received
- 2) If total payroll costs are less than 75% of loan amount, adjust your total amount eligible for forgiveness by dividing total payroll costs by 75%

Example: ABC Co. receives PPP loan of \$100,000. Over the next 8 weeks, ABC spends \$50,000 on payroll and \$25,000 on non-payroll. SBA guidance dictates that not more than 25% of the forgiveness amount may be for non-payroll costs. Therefore, the maximum forgiveness amount is \$66,667 ($\$50,000/75\%$).



Loan Forgiveness Criteria

- ➔ Forgiveness will be reduced if there is a reduction in full-time equivalent (FTE) employees or salaries
 - Reduction in # of FTE employees
 - Reduction related to salary and wages

Paycheck
Protection
Program
(PPP)



Paycheck Protection Program (PPP)

What are Full-time Equivalent Employees?

- ➔ Assume the same as ACA until further guidance issued – 30 hours per week
- ➔ Converts hours worked of all part-time employees to a number of f/t equivalent employees
- ➔ **Example** – if you have two employees who each work 15 hours per week, they are the equivalent of one full-time employee:

$2 \times 15 \text{ hours} = 30 \text{ hours actually worked}$

$30 \text{ actual hours} / 30 \text{ FTE hours} = 1 \text{ FTE}$



Paycheck Protection Program (PPP)

Know your Numbers – FTE's

- ➔ **First:** Contact your Payroll Company for your FTE baseline numbers
 - How many FTE's did you have between
 - 2/15/19 and 6/30/19 AND
 - 1/1/20 and 2/29/20
 - Consult with your advisor on which period to choose
 - Most will choose the smaller of the two FTE baseline numbers



Paycheck Protection Program (PPP)

Know your Numbers – FTE's

- ➔ **Next**, find out from your payroll company about reports for managing FTE's during the 8-week period following disbursement of the loan
 - Other periods to monitor:
 - 2/15/20 – 4/26/20



Paycheck Protection Program (PPP)

Calculating FTE's for the measurement period

First - **Count your full-time employees** – full-time is defined under ACA guidance as employees that work more than 30 hours per week during the period.

Second - **Add** the total hours worked by all other employees (your part-time employees) during the measurement period. Divide those total hours for the time period by the following:

For 2/15/19-6/30/19 (A): 570 (30 hours week for 19 weeks)

For 1/1/20-2/29/20 (B): 240 (30 hours week for 8 weeks)

This equals your full-time equivalent employees

Third - **Add** the number of full-time employees and the number of full time equivalents to reach your total FTE's for the period.



Paycheck Protection Program (PPP)

Calculate Reductions for Decreases to FTE's and Salaries

Calculating reductions in forgiveness is based upon the following:

- ➔ Reduction in # of employees
 - Compare average FTE's by pay period during 8 week period to average FTE's 2/15/19-6/30/19 OR 1/1/20-2/29/20
 - Average FTE's during 8-week period must be equal to or greater than this number to be considered for full forgiveness

- ➔ Reduction due to reduced salary and wages
 - Will also look at wages paid to any employee who earned less than \$100k in 2019 to ensure that their total wages were not reduced by more than 25% during the 8-week period when compared to the most recent full quarter during which the employee was employed before the 8-week period



Important Planning Opportunity

Forgiveness Relief Available

For those employers who took immediate action and laid off employees due to COVID-19 – relief may be available.

- ➔ Employers who re-hire workers previously laid off will not be penalized for reductions in employment or wages that occur during the period beginning 2/15/2020 and ending 30 days after enactment of the CARES Act (or 4/26/20), if by 6/30/2020, the employer eliminates the reduction in number of employees or reduction in wages.



Paycheck Protection Program (PPP)

Additional Guidance Still Needed

- Must eligible costs be incurred AND paid during 8-weeks?
- Is a full-time equivalent based on 30 hours per week?
- Do we need to re-hire the same workers that were laid off or can we replace salaries/hours with different workers?
- If an employee quit or was fired for non-COVID reasons, do we still need to calculate salary reductions for that employee?
- Is the relief available for February 15th - April 26th if only *some* of the FTE's/salaries lost during that period are restored by June 30th or is it an “all-or-nothing” approach?



Paycheck Protection Program (PPP)

REDUCTION OF FORGIVENESS DUE TO REDUCED FTE's

EXAMPLE*

Part 1: Number of Employees

Average FTE's Per Pay Period During 8-Week Period	30	88.24%
Average FTE's Per Month From 2/15/2019 – 6/30/2019	34	
- OR -		
Average FTE's Per Pay Period During 8 Week Covered Period	30	83.33%
Average FTE's Per Month From 1/1/2020 – 2/29/2020	36	

For the first reduction criteria "FTE's", the maximum loan forgiveness would be the higher of the two, or **88.24%**.

(*) Still waiting for further guidance from SBA



REDUCTION OF FORGIVENESS DUE TO REDUCED SALARY & WAGES EXAMPLE*

Part 2: Salary or Wage

Employee Name	Salary per Pay Period (during Most Recent Full Quarter)	75%	Salary per Pay Period During 8-week Period	Amount of Loan Forgiveness Reduction
Employee A	\$2,700	\$2,025	\$2,100	\$ -
Employee B	\$3,200	\$2,400	\$1,600	\$ 800
Employee C	\$1,500	\$1,125	\$850	\$ 275
Employee D	\$1,000	\$750	\$780	\$ -

Estimated Reduction in Loan Forgiveness due to Salary or Wage Reduction **\$ 1,075**

Note 1- 75% is the minimum pay before a salary reduction will cause a reduction in forgiveness

Note 2- Only include employees who did not receive pay, during any single pay period in 2019, wages or salary exceeding a \$100,000 annualized amount.

(* Still waiting for further guidance from SBA

Paycheck
Protection
Program
(PPP)



Forgiveness Calculation

Step 1 – Maximum amount of loan:

Amount of Loan	\$151,000
----------------	-----------

Step 2 – Total eligible costs paid:

Payroll costs (including health insurance, etc.)	\$114,000
--	-----------

Utilities	8,500
-----------	-------

Interest	10,000
----------	--------

Rents	7,500
-------	-------

Total eligible costs	\$140,000
----------------------	-----------

Step 3 – Amount of potential loan forgiveness (no greater than amount in step 1, but limited to eligible costs paid in step 2) *

	\$140,000
--	-----------

x Estimated employee retention ratio (from Part 1 example)	88.24%
--	--------

	\$123,536
--	-----------

Estimated reduction due to salary and wage reduction (from Part 2 example)	\$ (1,075)
--	------------

	\$122,461
--	-----------

Estimated total amount of loan forgiveness

	\$122,461
--	-----------

(*) Still waiting for further guidance from SBA



New Guidance for Partners & Self-Employed Taxpayers

Paycheck Protection Program (PPP)

- ➔ For partners, guaranteed payments **should be included as a payroll cost of the Partnership** (subject to same \$100K limitation). Individual partners should NOT be applying for PPP loans individually for lost GP income
- ➔ For self-employed taxpayers, loan amount is based on average 2019 Schedule C net income, limited to \$100K. This amount is referred to as “owner compensation replacement”.
 - If 2019 Schedule C not yet filed, provide draft to bank
 - SBA to issue additional guidance for those not in business in 2019
 - If self-employed taxpayer also pays W-2 employees, include employee wages (subject to \$100K limit), employer health contributions (Sch C line 14), retirement contributions (Sch C line 19), and state and local taxes assessed on employee compensation (SUTA)



Paycheck Protection Program (PPP)

Forgiveness for Self-Employed Taxpayers

➔ Forgiveness for self-employed taxpayers

- Payroll costs must constitute 75% of forgiveness amount
- Non-payroll costs (mortgage interest on real or personal property, rent, and utilities) **only if** the taxpayer was entitled to deduct them in 2019
- Forgiveness for “owner compensation replacement” limited to 8/52 of 2019 Sch C net income (not more than \$100K) less any COVID-related qualified sick leave equivalent for which the taxpayer claims a payroll credit
- Still need additional clarification- SBA/Treasury guidance includes generalized statement that forgiveness for self-employed taxpayers limited to 8/52 of 2019 Schedule C net income “because many self-employed individuals have few of the overhead costs that qualify for forgiveness...and thus do not incur qualifying mortgage interest, rent, or utility payments.”- what about non-payroll costs the taxpayer was entitled to deduct??



Paycheck Protection Program (PPP)

How to ask for forgiveness?

- ➔ Submit a request to your **lender**
- ➔ Include documents verifying your FTE's and pay rates (payroll reports, payroll journal)
- ➔ Include proof of payments on utilities, rent, and interest
- ➔ Certify that the documents are true
- ➔ Certify that the funds were used to keep employees
- ➔ Lender will review documents and must make a decision on forgiveness within 60 days of application



Beware that you could be taking on a loan, some of which has the potential to not be forgiven. Don't count on it until it's forgiven.



Paycheck Protection Program (PPP)

What if you aren't totally forgiven?

- ➔ 1% interest rate
- ➔ 2 year term
- ➔ All payments are deferred for 6 months, but interest accrues during this time
- ➔ No prepayment penalties



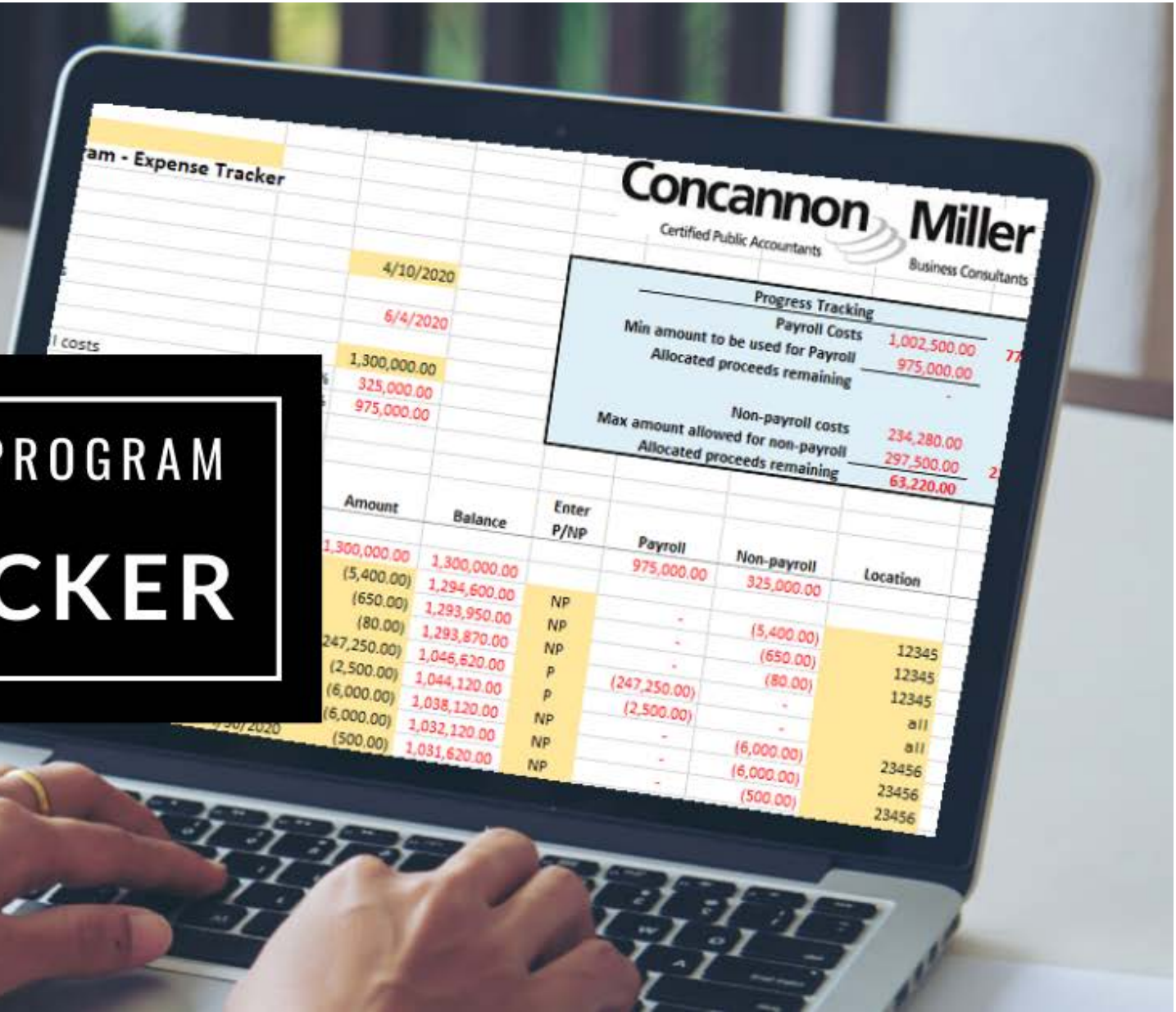
Paycheck Protection Program (PPP)

Other considerations

- ➔ If you receive a PPP loan, you cannot take advantage of the Employee Retention Credit.
- ➔ In addition, once you are notified that you will receive forgiveness of a PPP loan, you can no longer take advantage of payroll tax deferral allowed by the CARES Act.
 - Any amount already deferred is due according to the normal schedule (50% due December 31, 2021, other 50% due December 31, 2022).



Concannon Miller PPP Expense Tracker



**PAYCHECK PROTECTION PROGRAM
EXPENSE TRACKER**

RESOURCES

[U.S. Small Business Administration \(SBA\)](#)

[AICPA – State Provisions](#)

[U.S. Department of the Treasury](#)

[PPP Expense Tracker](#)

Check Concannon's Resource page
for helpful information for your business.



Concannon Miller's COVID-19 Resource Center

Up-to-date information on how it affects
your business and you.



Concannon Miller & Co.



Lainie Smith, CPA, MST
Tax Manager

lsmith@concannonmiller.com



Steve Bickert, CPA
Shareholder

sbickert@concannonmiller.com

1525 Valley Center Pkwy, Suite 300
Bethlehem, PA 18017
888-433-1515

9800 Fourth St., North, Suite 300
St. Petersburg, FL 33702
800-272-2733

