

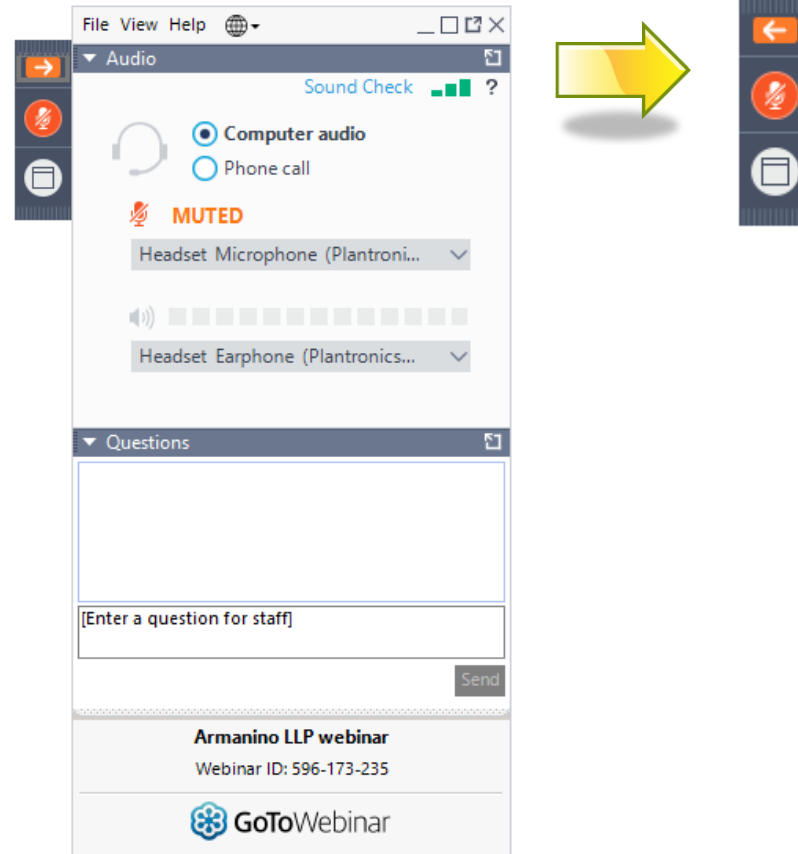


# ARE YOU PREPARED FOR PPP FORGIVENESS?

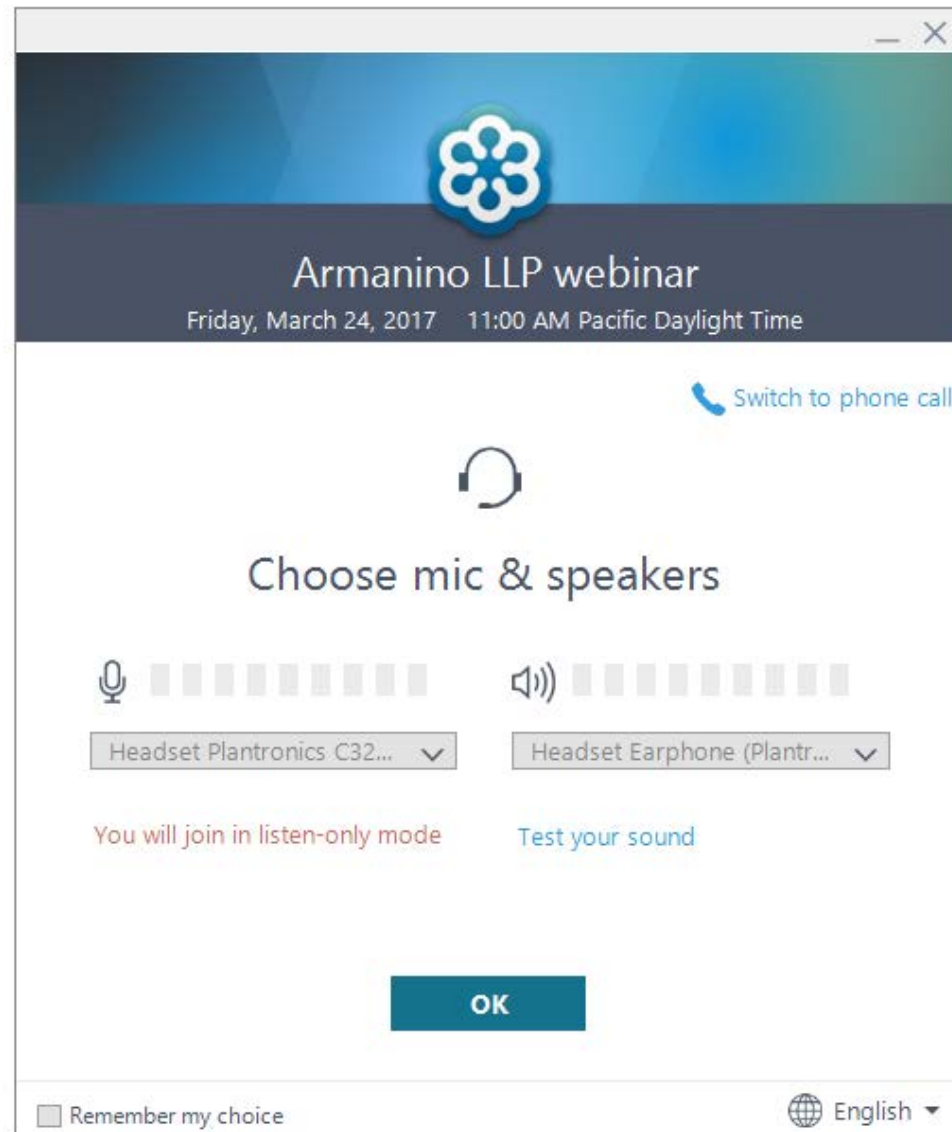
The facts about Payroll Protection Program &  
how to make sure you qualify for loan forgiveness



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# Today's Presenters



**Steve Tessler**  
*EVP, Director of Sales*



**Vivian Mui**  
*Senior EVP, Chief Credit Officer*



**John Schweisberger**  
*Business Outsourcing Services,  
Partner*



**Jenn McCabe**  
*Business Outsourcing Services,  
Partner*



# PPP Loan Forgiveness Overview

- Maximum forgivable amount is equal to the amount spent on qualifying payroll costs and specific operating expenses
- 8-week period
- Forgiveness will be reduced, if # of FTEs is lower than the baseline period
- Forgiveness may be further reduced, if wages are reduced past threshold
- Any unforgiven amount must be repaid over 2 years at a 1% interest rate, with deferred payments for at least 6 months from date of the loan
- Ensure your spending is provable
- Develop a strategy for maximizing forgiveness and what to do with remaining funds

# Allowable Use of PPP Funds – Payroll Costs

- Salary, wage, commission, tips, or similar compensation capped at *\$100K annualized, or \$1,923/week during the 8 weeks, or \$15,385 in total*
- Employer portion of group health care benefits, including insurance premiums
- Employer portion of retirement benefits
- Employer portion of state or local tax assessed on the compensation of employees





## Allowable Use of PPP Funds – Other Costs

- Payments of interest on a covered mortgage for real and tangible personal property
- Rent under a lease agreement for real or personal property
- Covered utility payments
- All of the above needed to be in place before 2/15/20
- Also allowed: Interest on any pre-existing, non-mortgage debt obligations

Interest on pre-existing debt is clearly allowed under the Act in the section called “Allowable Uses of Covered Loans,” but is *not included in the Forgiveness calculation*

# Forgiveness Math

- 75% or more of both loan proceeds and loan amount spent in the 8-week Covered Period (“forgiveness amount”) are intended to be used for payroll costs; up to 25% may be used for non-payroll costs
- Forgiveness Amount will be reduced ...
  - If there is any reduction in any employee’s average **Salary/Wages** greater than 25% during the 8-week period as compared to Q1 2020 (includes only employees under \$100K annualized in any pay period in 2019) – this is a dollar for dollar reduction
  - Proportionately to any reduction in number of **FTE** from one of two base periods compared to the number of FTE over the 8-week usage period – this is a percentage reduction calculated on the Gross Forgiveness Amount less the Salary/Wage reduction above
  - The combination of your Gross Forgiveness Amount (the amount you spent) less the two reduction factors gives you your “Modified Forgiveness Total”
- To determine Net Forgiveness Amount, compare your Modified Forgiveness Total to  $(\text{Payroll Costs}/0.75)$  and choose the smaller figure



# Forgiveness Math, cont.

- Safe Harbor: Borrowers whose average FTEs between 2/15/20 and 4/26/20 was lower than 2/15/20, and re-hire them by 6/30/20, will not be subject to the FTE Reduction Factor
- Safe Harbor: Borrowers who reduced salaries between 2/15/20 – 4/26/20 as compared to 2/15/20, and restore them by 6/30/20, will not be subject to the Salary/Wage Reduction Factor
- Treasury has clarified that spending includes BOTH “costs incurred” and “payments made” during the Covered Period for all expense categories
- Borrowers can also select an Alternative Covered Period *for payroll costs only*
  - Aligns with payroll periods to make it easier
  - Only available to weekly/bi-weekly payors
- Further SBA guidance is expected

# Forgiveness Math – Two Examples

	<b>ABC Co.</b> Laid off 20% of staff on 3/15/20 Reduced salaries 30% on 3/15/20	
Loan Amount	\$1,000,000	
Amount Spent (Gross Forgiveness Amount)	\$600,000	
Payroll Costs	\$450,000	
Payroll Percentage	75%	
Salary/Wage Reduction Factor (\$\$)	(\$200,000)	
FTE Reduction Quotient (%)	80%	
Modified Forgiveness Total	\$320,000 [(\$600K-\$200K)*0.8]	
Payroll Costs/0.75	\$600,000	
Net Forgiveness Amount	\$320,000	
Amount Owed on Loan	\$680,000	

# Forgiveness Math – Two Examples

	<b>ABC Co.</b> Laid off 20% of staff on 3/15/20 Reduced salaries 30% on 3/15/20	<b>XYZ Co.</b> Laid off 33% of staff on 1/15/20 Reduced salaries by 33% on 2/1/20
Loan Amount	\$1,000,000	\$1,000,000
Amount Spent (Gross Forgiveness Amount)	\$600,000	\$600,000
Payroll Costs	\$450,000	\$360,000
Payroll Percentage	75%	60%
Salary/Wage Reduction Factor (\$\$)	(\$200,000)	(\$0)
FTE Reduction Quotient (%)	80%	100%
Modified Forgiveness Total	\$320,000 $[(\$600K - \$200K) * 0.8]$	\$600,000
Payroll Costs/0.75	\$600,000	\$480,000
Net Forgiveness Amount	\$320,000	\$480,000
Amount Owed on Loan	\$680,000	\$520,000

# Additional Consideration

- If your loan amount was over \$2 million, make sure you “qualify” for the loan and can demonstrate “need”  
E.g. No alternative funding sources available
- Document your perceived need *now*, based on your business outlook at the time you applied, so it’s ready for SBA audit
- Keep in mind FAQ #31: “all borrowers must assess their economic need for a PPP loan *under the standard established by the CARES Act and the PPP regulations at the time of the loan application*”

**Paycheck Protection Program  
Borrower Application Form**

Check One:

- Sole proprietor
- Partnership
- C-Corp
- S-Corp
- LLC
- Independent contractor
- Eligible self-employed individual
- 501(c)(3) nonprofit
- 501(c)(19) veterans organization
- Tribal business (sec. 31(b)(2)(C) of Small Business Act)
- Other

Business Legal Name

Business Address

Business TIN (EIN, SSN)

Primary Contact

Payroll: \$

Lease / Mortgage Interest

Utilities

Other (explain)

Number of Employees

Applicant Ownership



## Best Practices

- Build a 2-year forecast
  - Plan how the money will be spent
  - Determine whether you should retain additional, unforgiven funds
- Segregate funds in a separate account
- Be transparent with use of funds for clean audit trail
  - Keep in mind that not all payroll expense will factor into the forgiveness calculation, nor will mortgage debt principal payments
- Keep a running total of expenditures, with notes, in a spreadsheet – pending further guidance on the term "costs incurred and payments made," assume cash basis
- Collect and maintain documentation for every expense against PPP funds
- Adhere to your published payroll cycles

# Expected Documentation

- Certification of accuracy
- Certification that funds were used for allowable purposes
- Form 941 for Covered Period
- State quarterly unemployment insurance tax reporting forms
- Payroll processor records documenting headcount, individual compensation, and retirement or health insurance contributions for each payroll during Covered Period
- Hours from payroll report confirming FTE data
- Accounting records and payment advice or other evidence for covered operating expenses
- Bank statement for loan account
- 2019 Schedule C if self-employed
- If self-employed, copy of the Owner's Income Statement for the Covered Period and evidence of payments to the Owner equivalent to the loan amount
- Completed forgiveness application supplied by lender



## The Simple Summary

- Plan ahead for PPP forgiveness
  - Usage of funds inclusive of a staffing plan
  - Manage compliance through tracking of your essential business operating costs
- Plan a path for liquidity through uncertainty
- Forgiveness is an extremely technical and complicated process with significant liability attached to it



# Frequently Asked Questions



# FAQs

## PROGRAM QUESTIONS:

1. My eight-week period won't allow me to make four regularly scheduled payrolls and two monthly rent payments. What do I do?
2. What happens to my "covered period" if I received my funds after May 6th? My 8 weeks runs out after June 30th.
3. Are payments made with forgiven funds deductible?
4. What happens if I don't use all the money?
5. Do I have to re-hire everyone? And can I fire them all again on 7/1?

## USE OF FUNDS QUESTIONS:

6. Can I use PPP funds to pay bonuses?
7. Can I use PPP funds to make 2019 profit sharing contributions?
8. Can I use PPP funds to buy inventory?
9. If owners are paid by K-1 rather than W-2, are those payments eligible as payroll costs?
10. Are owner health premiums an eligible use of PPP funds?
11. What expenses are considered "Utilities"?
12. Can property taxes and insurance be included as "rent costs" under a triple-net lease?
13. If we deferred our March rent and pay it during the Covered Period, is it forgivable?
14. Are payments to temp agencies considered payroll costs?
15. Am I restricted in my uses of leftover funds?

# FAQs

## FORGIVENESS QUESTIONS:

16. Does forgiveness use the same \$100,000 payroll cost per person limit as the loan application calculation?
17. Can I include the payroll cost in the forgiveness calculation for people I did not include in the loan application (e.g. equity partners)?
18. Will severance or PTO payouts (not accruals) count in compensation for forgiveness?
19. If I don't think I can get to the 75% payroll threshold for forgiveness, can I repay some of my loan now to lower my denominator and better my chances?
20. Do HSA contributions to employees count as health insurance benefits for forgiveness?
21. Is there any forgiveness difference between employer payments for Defined Contribution Plans vs. Defined Benefit Plans?
22. Can I include union fees I'm required to pay in benefits?
23. If we restrict overtime for hourly employees or suspend bonus payments for salaried staff, is that a wage reduction?
24. Can self-employed have non-payroll forgiven?
25. What is the definition of an FTE?
26. If an employee resigns during the Covered Period, does that affect the reduction calculation?
27. How long after my Covered Period do I have to file my forgiveness application with the bank?



# Additional Q&A



# Resources and Guidance