

The PPP Loan Forgiveness Form is Out: Next Steps to Ensure Forgiveness of your PPP Loan

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Background: Loan Forgiveness Requirements

- Satisfy the eligibility rules and certification requirements.
- Spend all of the loan proceeds during the 8 weeks after the origination date on permitted expenses.
- Retain employees compared to pre-COVID19 numbers.
- Don't reduce employee wages by more than 25% compared to pre-COVID19 amounts.
- Spend at least 75% of the loan proceeds on Payroll Costs.

Notable Updates

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- Alternative Payroll Covered Period (“APCP”) Available
- Paid or Incurred Expenses Permitted
- 75% Test is not all-or-nothing
- Reduction Formulas Provided
- New Safe Harbors
- Audit Self-Reporting
- 56 Day Covered Period

Tracking Costs

- Costs may be paid or incurred.
- Electing the APCP
- Prepayments may be possible?
- No double-dipping

Working Backwards – Schedule A Worksheet

PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

Attach additional tables if additional rows are needed.

FTE Reduction Safe Harbor:

- Step 1. Enter the borrower's total average FTE between February 15, 2020 and April 26, 2020. Follow the same method that was used to calculate Average FTE in the PPP Schedule A Worksheet Tables. Sum across all employees and enter: _____.
- Step 2. Enter the borrower's total FTE in the Borrower's pay period inclusive of February 15, 2020. Follow the same method that was used in step 1: _____.
- Step 3. If the entry for step 2 is greater than step 1, proceed to step 4. Otherwise, the FTE Reduction Safe Harbor is not applicable and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.
- Step 4. Enter the borrower's total FTE as of June 30, 2020: _____.
- Step 5. If the entry for step 4 is greater than or equal to step 2, enter 1.0 on line 13 of PPP Schedule A; the FTE Reduction Safe Harbor has been satisfied. Otherwise, the FTE Reduction Safe Harbor does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.

Employee Census Update

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- The mechanics are the same:
 - Step 1: Calculate Average FTEs during the Covered Period *divided by* Prior Average FTEs.
 - Step 2: Enter the result in Step 1 on Line 7 of the Application.
 - Two choices for prior FTE period: 2/15/19 – 6/30/19; or 1/1/20 – 2/29/20.
- What's new:
 - 40 hour per week standard to determine FTEs.
 - New exceptions for terminations, resignations, etc.
 - Clarification on the June 30 safe harbor.

Test 1 Example:



- \$100,000 Loan
- For both prior periods, the borrower had the following employees:
 - Al – 50 hrs/wk (1 FTE)
 - Bob – 40 hrs/wk (1 FTE)
 - Carol – 40 hrs/wk (1 FTE)
 - Dan and Ed – 25 hrs/wk (.6 each)
 - Frank and George – 40 hrs/wk (1 FTE each)
- Prior Period FTEs: 6.2
- During the covered period, the numbers look like this:
 - Al – 45 hrs/wk (1 FTE)
 - Bob – 40 hrs/wk (1 FTE)
 - Carol – 25 hrs/wk (.6 FTE)
 - Dan and Ed – 20 hrs/wk (.5 FTE Each)
 - Frank and George: Laid Off
- Covered Period FTEs: 3.6
- FTE Reduction Quotient = 3.6 *divided by* 6.2 = .58.
- Max Forgiveness: \$58,000

FTE Safe Harbor

- Safe Harbor 1 – Calculate the following:
 - (A): FTEs from 2/15/2020 – 4/26/2020
 - (B): FTEs for pay period including 2/15/2020
 - If (B) is less than or equal to (A), you flunk the safe harbor.
 - If (B) is more than (A), calculate FTEs as of 6/30/20.
 - If 6/30/20 FTEs equal or exceed 2/15/20 FTEs, no reduction to forgiveness.
- Safe Harbor 2 (maybe) – Schedule A, Line 10:
 - If FTEs on 1/1/20 equals FTEs on the end of the Covered Period, no reduction to forgiveness.
 - What does “between” mean?

Example:



- Continuing the last example:
 - Prior period FTEs were 6.2, and Covered Period FTEs were 3.6.
 - On a \$100,000 loan, max forgiveness is reduced to \$58,000.
- But also assume:
 - FTEs from 2/15/20 – 4/26/20 were 3.9.
 - FTEs for the 2/15/20 pay period were 4.2.
- If 6/30/20 FTEs equal or exceed 4.2, no reduction.

Salary / Wage Reduction:



- General Rule:
 - (A) Determine the average salary or hourly wage for each employee during Q1
 - (B) Determine the same for the Covered Period (or APCP if applicable)
 - (C) Divide (B) by (A). If the result is greater than or equal to .75, you pass. No reduction.
- If the result is less than .75:
 - (D) Multiply Q1 salary/wages by .75 and subtract (B) from the result.
 - Multiply the result in (D) by:
 - The average weekly hours worked in Q1 for hourly employees; or
 - 8/52 for salaried employees.
 - Sum the reduction for each applicable employee to arrive at the total reduction.

Test 2 Example:



- Mike was paid \$22,500 during Q1, making his average annual salary \$90,000.
- During the covered period, Mike's employer paid him \$10,000. His average annual salary for the covered period is \$65,000.
- $\$65,000 / \$90,000 = .72$
- Since this is less than .75, Mike's employer would reduce the maximum forgiveness amount as follows:
 - $\$90,000 \times .75 = \$67,500$
 - $\$67,500 - \$65,000 = \$2,500$.
 - $\$2,500 \times (8/52) = \mathbf{\$384.62}$. This is the reduction amount.

Test 2 Safe Harbor:



- But wait, there's more! The 2/15 and 4/26 dates are back again. Here's the safe harbor:
 - (A): Determine average salary or wage as of 2/15/20
 - (B): Determine averages salary or wages for the period of 2/15/20 – 4/26/20.
 - (C): If (B) is greater than or equal to (A), you fail the safe harbor.
- If (B) is less than or equal to (A):
 - (D): Determine the salary or hourly wage **as of** June 30, 2020.
 - If (D) is greater than or equal to (A), you pass. No reduction.

Example:



- Further assume Mike's salary was \$85,000 on 2/15, and from 2/15 to 4/26 it was down to \$70,000 before being further reduced to \$65,000 during the covered period.
- Due to wonderful PPP webinars, Mike gets a raise back up to \$85,000 salary before June 30.
- Mike's employer is not penalized because his salary was returned to its 2/15 levels, even though Mike was not returned to his full Q1 salary level of \$90,000

Working Backwards – Schedule A

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PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:
If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here and enter 0 on line 3.

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:

Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

Line 6. Total amount paid by Borrower for employer contributions for employee health insurance:

Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans:

Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation:

Compensation to Owners:

Line 9. Total amount paid to owner-employees/self-employed individual/general partners:
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each.

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9):

Full-Time Equivalency (FTE) Reduction Calculation

If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period, check here , skip lines 11 and 12 and enter 1.0 on line 13.

Line 11. Average FTE during the Borrower's chosen reference period:

Line 12. Total Average FTE (add lines 2 and 5):

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met:

The Application



PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		() -	
		Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____

Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

- Weekly
 Biweekly (every other week)
 Twice a month
 Monthly
 Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here:

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):

Line 2. Business Mortgage Interest Payments:

Line 3. Business Rent or Lease Payments:

Line 4. Business Utility Payments:

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):

Line 9. PPP Loan Amount:

Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

Practical Takeaways & Next Steps

- Closely review the forgiveness application
- Update/begin forecasting
- Start with Schedule A worksheet and work backwards
- Documentation requirements on application page 10
- Watch for revisions, new rules, possible legislation
- Contact us with questions, to review current forgiveness forecast, and to review forgiveness application

Questions?

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