

# Planning to Ensure Full Forgiveness for Your PPP Loan

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Mike Zahrt  
Business & Tax Attorney  
mzahrt@fosterswift.com

Taylor Gast  
Business & Tax Attorney  
tgast@fosterswift.com

**Going Forward | Legal Insights Webinar Series**

**May 7, 2020**

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## Basic Requirements of Full Loan Forgiveness:

- 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.

## What are Permitted Expenses?

- Payroll Costs
- Interest on a Covered Mortgage
- Rent Payments
- Utility Payments
- Interest on Preexisting Debt (not forgivable)

# What are Payroll Costs?

- Salary, wages, commissions (up to \$100,000);
- Tips or equivalents;
- Vacation, parental, family, medical, and sick leave benefits;
- Dismissal or separation benefits;
- Group health plan benefits;
- Retirement benefits; and
- State and local taxes.

# Test 1: Employee Census

- Step 1: Calculate Average FTEs during the Covered Period *divided by* Prior Average FTEs
- Step 2: Multiply the result in Step 1 by “the amount in subsection (b)”
- Two choices for prior FTE period:
  - 2/15/19 – 6/30/19; or
  - 1/1/20 – 2/29/20

# Test 1 Example:

- Company receives a \$350,000 PPP Loan and expects 13 full-time employees and six part-time employees that work 15 hours per week during the Covered Period.
  - Each full time employee counts as 1 FTE (13 total).
  - Part-time employees count as 3 FTEs, for 16 total FTEs.
- Monthly Average FTEs for 2/15/19 – 6/30/19 was 20
- Monthly Average FTEs for 1/1/20 – 2/29/20 was 23
- Maximum forgiveness amount is \$280,000.

# Test 2: Wage Reduction Test

- The forgivable amount will be reduced *dollar for dollar* by the amount of any reduction in salary or wages for any employee that is greater than 25% compared to their wages in Q1 2020.

# Test 2 Mechanics

- Step 1: Identify employees employed during both the Covered Period and Q1 2020, exclude those making more than \$100,000 annualized and rehire rejections.
- Step 2: Calculate total wages for each employee during Q1 2020. Then multiply this amount by  $(8/13)$  to calculate each employees comparative wages during the covered period.
- Step 3: For each employee, multiply the amount in Step 2 by 75% to identify the minimum you can pay each employee without impacting loan forgiveness.



# Test 2 Example:

	2020 Q1	Convert to 8wk	8wk Equivalent	75% Minimum
Mindi	\$23,000	(8/13)	14,153.85	10,615.39
Taylor	\$20,000	(8/13)	12,307.69	9,230.77
Mike	\$15,000	(8/13)	9,230.77	6,923.08
Kim	\$15,000	(8/13)	9,230.77	6,923.08
Jake	\$22,500	(8/13)	13,846.15	10,384.61
Amanda	15,000	(8/13)	9,230.77	6,923.08
John	20,000	(8/13)	12,307.69	9,230.77

# Test 3: 75% Test

- This test has two requirements:
  - 75% of the loan proceeds used during the Covered Period must be used on Payroll Costs.
  - 75% of the total loan amount must be used on Payroll Costs.
- The remaining 25% must be used on permitted expenses to achieve full loan forgiveness.

# Applying For Forgiveness

- Your bank forgives the loan, and the SBA pays your bank the forgiven amount.
- You must apply on an application we don't have yet.
- Prepare documentation now – don't reinvent the wheel later:
  - Verify FTEs and pay rates (e.g., payroll tax reports and filings; state income, payroll and UIA filings).
  - Retain cancelled checks, payment receipts, etc. for Permitted Expenses that are not Payroll Costs.
- You also must certify that your supporting documentation is true and correct and that loan proceeds were used appropriately.

# The “Full Audit”

- FAQ 39: The SBA will review all loans in excess of \$2 million following the lender’s submission of the borrower’s loan forgiveness application.
- Purpose of the audit is satisfaction of both the eligibility and forgiveness requirements.
- Scope of the audit is unclear.

# Questions?

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