



05-15-20

PPP Loan Forgiveness Information

PURPOSE AND BENEFITS OF PPP PROGRAM

The purpose of the PPP program was to assist employers with maintaining payroll during the Covid-19 crisis. The application period started February 15, 2020 and ends June 30, 2020 or until the funds are exhausted whichever is first. If employers maintain their payroll, the loan may be forgiven, which would help workers remain employed as well as help **affected small businesses** and our economy snap back quicker after the crisis. The amount that may be forgiven and how that amount is calculated is explained in more detail below.

LOAN FORGIVENESS INFORMATION

To have all or part of the PPP loan forgiven, you must apply through your lender within 60 days after the eight week period of receiving the funds. They will need the SBA PPP Loan Forgiveness Application completed along with the following documentation/information.

- Copy of payroll report included in 8 week period showing detail of gross wages. **Note:** The definition of payroll costs **excludes employer federal taxes, workers compensation premiums, payments to independent contractors, and payment to employees for leave covered under the Families First Coronavirus Response Act.**
- Verify the number of employees on payroll and pay rates.
- All employer state and local taxes paid on employee gross pay, such as state unemployment insurance (Suta) and employer state disability insurance (in applicable states).
- Employer healthcare benefits, including insurance premiums.
- Employer paid retirement benefit, including defined-benefit or defined-contribution retirement plans and employer 401 (k) contribution.
- Proof of payments on mortgage loans (loan statement from bank and canceled check, if applicable).
- Copy of lease agreement and proof of lease payment (canceled checks) during 8 week period.
- Invoices and canceled checks to support utilities, phone, water, electric, etc for 8 week period.
- Only costs paid during the 8 week period beginning the date your PPP loan was received counts
- Certification from Company that provided documentation is true and that the amount that is being forgiven was used in accordance with the program's guidelines.

SBA has released a statement saying businesses that accepted PPP loans of less than \$2,000,000 will be assumed to have performed the required certification concerning the necessity of their loan requests in good faith. This safe harbor will promote economic certainty for PPP borrowers with limited resources as they work to retain and rehire employees. The \$2 million threshold also will help the SBA conserve its resources and focus its reviews on larger loans. SBA said borrowers with loans below \$2 million threshold are less likely to have had access to adequate sources of liquidity in the current economic environment than borrowers who obtained larger loans. This should help with concern that some business owners may have that after applying for the loan, sales had picked up. Some businesses are returning their PPP loan if they now feel they have not or will not be effected by Covid-19. Keep in mind it is difficult to predict the future.



LOAN FORGIVENESS REDUCTION

Loan forgiveness can be reduced if there is a reduction in

- The number of full time employees compared to certain prior periods or
- Total wages of any employee is reduced by more than 25% during the most recent full quarter beginning before 8 week period.
- The \$10,000 EIDL grant could be subtracted from the loan forgiveness amount.

Calculation of Reduction Based on Reduction in Number of Employees Example

Amounts spent of eligible expenses \$250,000 X $\frac{\text{average number FTE per month during 8 week period}}{\text{average number FTE per month from 02-15-19 to 06-30-19}}$
OR
 $\frac{\text{average number FTE per month from 01-01-20 to 02-29-20}}$

Calculation of Reduction Based on Reduction in Wages

- Amount of loan forgiveness will also be reduced if any employee's wages drop by more than 25% during the 8 week period from same period for first quarter ended 03-31-20. The sum of this excess drop for all employees that have this situation is the reduction from this factor.

SUGGESTIONS REGARDING LOAN FORGIVENESS

As soon as possible, project your qualified loan forgiveness expenses for your 8 week period. You can use your best projection of wages, Suta, health insurance, rent, mortgage interest, and utilities to see how you are progressing towards your PPP loan amount. Your weekly labor hours may have increased or decreased a lot from 2019 levels. **We highly recommend making yourself familiar with the SBA forgiveness application (also attached) and even preparing a mock application to see where things stand.**

- Make sure that owners are paid fair market value (FMV) wages, as sometimes owners will lower their wages to make sure other employees get paid, or to improve financial ratios. This means changing owner wages to \$1,920 a week instead of current amount.
- Consider paying hazard pay to compensate your staff for the risk they are willing to take. This may be very important if you are having employees not wanting to return to work, given the current extra unemployment benefits.
- If things gets slow, possibly encourage employees to take their vacations now during 8 week period.
- You may have to change your lease agreement if you are paying under FMV rent to yourself, as that is a common problem. SBA wants your rent expense to be FMV.
- Calculate your FTE (full time equivalent) numbers for the important periods discussed above. You may have to hire new employees.
- Consider your whole compensation package you have with your employees, kinds of pay, timing of those pay types, etc, and makes changes that increase your loan forgiveness.

Please do not hesitate to call or email us with your questions. We will continue to share information as we get new information.

Thanks,
Ault Henderson & Lewis CPAs