

Clearing a Path Through the PPP Loan Forgiveness Maze



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Today's Agenda

- Ready, Shoot, Aim!
- PPP Application Overview
- Payroll Costs
- Calculating Full-Time Equivalency Employees (FTEs)
- Nonpayroll Costs
- Other Aspects of the Application
- Key Takeaways and Recommended Actions
- Tools and Services Available
- <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>

The Application



Ready, Shoot, Aim!

- Application released Friday night, May 15th
- Not all loan forgiveness questions answered
- CASH vs. ACCRUAL = BOTH; with numerous inconsistencies\ambiguities
- A few other questions have been answered-common sense\reasonable assumptions can get us the rest of the way

The Basic Loan Forgiveness Calculation

$$\begin{array}{r} \text{Eligible Costs Incurred} \\ \text{Less: } \underline{\text{Salary/Hourly Wage Reductions}} \\ \text{Adjusted Eligible Costs} \\ \text{X } \underline{\text{FTE Reduction Quotient}} \\ \text{Total Forgiveness Amount*} \\ \underline{\text{Less: EIDL Grant}} \\ \underline{\underline{\text{PPP Forgiveness Amount}}} \end{array}$$

* Not to exceed 133.3% of Payroll Costs or 100% of the PPP Loan

More Basics

Loan Forgiveness – Eligible Amount

- ***Costs incurred and payments made*** for the following during the 8-week forgiveness period (the *Covered Period* or *Alternative Payroll Covered Period*):
 - Payroll costs
 - Payments of interest on mortgage indebtedness outstanding prior to February 15, 2020
 - Payments of rent and utilities
- At least 75% must be expended on payroll costs.

Application Overview-3 Parts

- PPP Loan Forgiveness Calculation Form
- PPP Schedule A
- PPP Schedule A Worksheet

PPP Loan Forgiveness Calculation Form

- Payroll Costs (include salaries, and employer paid vacation, parental, family, medical, sick leave, health, retirement. Also self employment subject to limits, SUI, MTA.)
- Nonpayroll Costs (Mortgage interest, rent\leases, utilities)
- Adjustments for FTE & Salary/Hourly Wage Reductions
- Potential Forgiveness Amount
- Forgiveness Amount
- Borrower Certifications

PPP Schedule A

- Summarizes Cash Compensation & FTE's from PPP Schedule A Worksheet
 - For those making less than \$100k
 - For those making more than \$100k
 - Owners
- Summarizes all non-cash compensation
- Determines a total for all payroll costs and flows to PPP loan forgiveness calculation form
- Calculates an FTE Reduction Quotient

PPP Schedule A Worksheet

- Supports Calculation of Eligible Cash Compensation and salary/hourly wage reductions
 - Every employee paid during period must be listed with last 4 of SS#
- Two Parts to the Worksheet
 - Table 1-For employees not > \$100,000 in 2019
 - Table 2-For employees > \$100,000 in 2019
- Instructions contain guidance for:
 - Computing average FTEs
 - Computing Salary/Hourly Wage Reductions
 - Determining FTE reduction exceptions and safe harbors

Payroll Costs-PPP Schedule A Worksheet-Table 1 and Table 2

- Payroll Costs Paid and Incurred
 - Covered Period (56 Day)
 - Payroll costs paid on date checks distributed/ACH Credit
 - Payroll costs incurred on the day employee pay earned
 - Payroll costs incurred but not paid before end of covered period are eligible if paid on\before next regular payroll date

Payroll Costs, Con't.

- Alternative Payroll Covered Period (APCP)
 - Borrowers with biweekly (or more frequent) may elect 8 week period starting with first payroll after loan funding date.
 - APCP cannot be used for non payroll costs
- Are only 56 days of payroll costs eligible for forgiveness??

Payroll Costs, Con't.

Salaries of Owners:

Regardless of whether Covered Payroll Period or APCP is used:

Salaries of owners (and presumably their immediate family members) cannot exceed actual 2019 compensation, pro-rated to the 8-week period, capped at \$15,385 (\$100,000/year for 8 weeks)

This is not consistent with other guidance which differentiates self-employed individuals and partners, but not owners who are W2 employees.

Payroll Costs, Con't.

- Are payroll costs incurred prior to the CP, but paid during the CP permissible? (This could result in up to 87 days of payroll costs for a semi-monthly payer.)
- Conflicting guidance for other payroll costs (retirement, health, SUI, MTA)
 - Page 2 of the Application states to all payroll costs as eligible for forgiveness if they were paid or incurred during the Covered Period
 - The instructions for Schedule A, Lines 6,7,8 tell us to enter the amounts paid for health insurance, retirement benefits and employer state and local taxes
 - Are health, pension and taxes also considered to be “paid” on the day paychecks are distributed?
- How about pension and taxes for covered period paid after?
- Pension costs for periods prior to covered period paid during? Discretionary contributions?
- Health paid before covered period related to covered period?
- Further clarification to come??
- For now, pay expenses in the ordinary course; business as usual

Payroll Costs – Example

Is this what is intended?

- Monthly payroll, distributed on the 5th of the month following the period earned
- PPP loan date is May 1st
- Covered period is May 1st through June 25th

	Deemed Pay Date	Incurred in CP?	Deemed Paid in CP?	Pd by next pay date?	No. Days
April payroll	May 5	No	Yes	NA	30
May payroll	June 5	Yes	Yes	NA	31
June payroll	July 5	Partial	No	Yes	25
					86

Payroll Costs – Example

Is this what is intended?

- Monthly payroll, distributed on the 5th of the month following the period earned
- PPP loan date is May 1st
- Covered period is May 1st through June 25th

	Remit Date	Deemed pay Date	Incurred in CP	Deemed Paid in CP	Pd by next pay date	Forgiv-able
April health Ins	Apr 1	May 5	No	Yes	NA	Yes
May Health Ins	Apr 30	Jun 5	Yes	Yes	NA	Yes
July Health Ins.	Jun 25	Aug 5	No	No	NA	No?
2019 Pension	May 30	2019	No	No	NA	No?

Calculating FTE's

- Calculate using a 40 hour week (round to nearest tenth)
- **Practical solution - count full time salaried as 1 FTE?**
- Calculate part time and full time hourly using 40 hrs.
- Maximum for each employee is 1 FTE
- Simplified method
 - 1 for employees who work 40 hours or more
 - .5 for all other employees
 - Must be applied consistently for all FTE calculations

Calculating FTE's con't.

- As detailed at the bottom of PPP Schedule A:

Your *FTE Reduction Quotient* is the average FTEs in the 8-week period divided by the average FTEs in either the period:

- February 15, 2019 to June 30 , 2019, or
- January 1, 2020 to February 29, 2020
- Or, for seasonal employers only, a flexible 12-week period

On Line 11 of the PPP Schedule A, this is referred to as the “Borrower’s chosen reference period”

FTE Reduction Exceptions

- Good faith written offer to rehire employee during the covered period or APCP which was rejected by the employee
- Employees:
 - Fired for cause
 - Who voluntarily resigned
 - Who voluntarily requested and received a reduction in hours
 - Can be included in FTE count for the covered period as long as their position was not filled by new employee

FTE Reduction Safe Harbor-Page 8

Instructions

- Borrowers exempt from reduction in forgiveness based on reduction in FTE's if:
 - Borrower reduced FTE's in period 2/15/20-4/26/20; and
 - FTE levels restored not later than 6/30/20 to the FTE employee levels in pay period that included 2/15/20
- No guidance on how long restored FTE's have to be maintained (only a point in time test)
- Employees hired to restore the FTE's do not have to be the same as the ones let go.

Salary/Hourly Wage Reductions-PPP Schedule A Worksheet-Table 1

- This only applies to:
 - Employees who earned an annualized rate of pay of not more than \$100,000 for any pay period in 2019 (how are bonuses figured into that?)
 - Whose salaries were reduced by more than 25% during the Covered Period (or Alternative Payroll Covered Period) as compared to Q1-20
- If this applies, the amount of loan forgiveness is reduced by the amount by which the salary reduction exceeds 25%, unless:
 - The annual salary (or hourly rate) is restored by June 30, 2020, to the level in place as of February 15, 2020.
 - This complex calculation is described in pages 7 and 8 of the instructions

Nonpayroll Costs-PPP Loan Forgiveness Calculation Form Lines 2, 3, and 4

- Mortgage interest, rent, utilities-all must have been in place prior to 2/15/20
 - Must be paid during the covered period; or
 - Incurred during the covered period and paid on or before next regular billing date even if that is after the covered period
- Prepayments of mortgage interest explicitly disallowed
- No such explicit prohibition against rent or utility prepayments

Nonpayroll Costs, con't.

- Instructions and prior guidance do not:
 - Prohibit payment of prior months nonpayroll costs
 - Prohibit pre-payment of future nonpayroll costs
- Including expenses not related to the covered period may be inconsistent with the intent of the PPP-**Be wary.**
- **Borrower can choose which nonpayroll costs to include\exclude in the calculation**

Other Aspects of the Application

- Application instructions provide detailed steps for computing the Salary/Wage Reduction adjustment to loan forgiveness amount.
- Instructions also contain safe harbor to eliminate the reduction.
 - Safe harbor if employee salary/hourly wage is greater than annual salary/wage as of 2/15/20
 - Contained on PPP Schedule A Worksheet Instructions

Other Aspects of the Application, con't.

- PPP Schedule A Worksheet:
 - Requires gross wages (cash compensation) for the Covered Period or APCP and Salary/Hourly Wage Reduction to be listed separately for each employee
 - Tedious and time consuming if large payroll or pay reductions
 - Payroll provider reports can be a big help here.

Required Documents to be Submitted

- PPP Loan Forgiveness Calculation Form
- PPP Schedule A
- Optional PPP Borrower Demographic Information Form
- Payroll
 - Bank account statements or 3rd party payroll service reports document the amount of cash compensation to employees
 - Tax forms: 941's, state payroll tax returns
 - Payment receipts, cancelled checks, or account statements documenting the amount of employer contributions to employee health insurance and retirement plans included in the forgiveness amount

Required Documents to be Submitted

- FTE documentation showing
 - Average number of FTE employees on payroll per month between 2/15/19 and 6/30/19
 - Average number of FTE employees on payroll per month between 1/1/20 and 2/29/20
 - Seasonal employer calculation
 - Must match PPP Schedule A, Line 11

Required Documents to be Submitted

■ Nonpayroll costs

- Mortgage interest - Amortization schedule, cancelled checks, account statements for February 2020 and covered period and 1 month after covered period
- Lease payments – Copy of lease agreement, cancelled checks, lessor account statements for February 2020, the covered period, and 1 month after the covered period
- Utility payments – Copy of invoices from February 2020, those paid during covered period, cancelled checks, and account statements verifying those eligible payments

Documents to be Maintained

- Documentation supporting the listing of each individual employee in PPP Schedule A worksheet table 1 including applicable documentation of salary/hourly wage reduction calculation
- Documentation supporting each employee listed on PPP Schedule A Worksheet Table 2 received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000
- Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by employee for reduction in work schedule
- Documentation supporting the PPP Schedule A worksheet “FTE Reduction Safe Harbor”

Documents to be Maintained

- All Files must be maintained for six years after the date the loan is forgiven or repaid in full.
- Must permit authorized representatives of SBA, including its Office of Inspector General, access to such files upon request.

Planning Considerations



Maximizing Forgiveness

- Reducing FTEs has the biggest negative impact on loan forgiveness
 - It is better to reduce salaries than FTEs
 - If you reduced FTEs between 2/15 and 4/26, plan to rehire them by 6/30
- If non-payroll expenses will fall short of the 25% cap, make sure you are picking up all eligible interest, rent and utility costs
- Monitor new guidance as it comes out in order to maximize your health insurance, retirement costs, rent and utilities
 - Amounts paid for during the Covered Period for costs incurred prior to the Covered Period?
 - Prepayments?

Maximizing Forgiveness (continued)

- Consider paying *hazard pay* or other bonuses (but mind the cap of \$15,385)
- Keep good records, starting now
- Don't do anything out of the ordinary course that might be considered abusive

More Changes on the Way

- SBA guidance to clarify and modify the forgiveness application
 - Clarify *costs incurred and costs paid*
 - Eliminate the 25% limitation on nonpayroll costs?
- Possible legislative changes
 - Expand allowable uses
 - Extend the period for forgiveness

PKFOD Forgiveness Assistance



Support Available

- Free forgiveness calculator updated for new guidance
- On-going thought leadership in our COVID-19 Resource Center
- Forgiveness Application Preparation
- Forgiveness Application Review
- Consulting and advisory services

PPP Forgiveness Application Software

- Supports all required calculations
 - Average FTEs for all required periods and dates using both allowed methods
 - Salary/Hourly Wage Reduction
 - FTE Reduction Exceptions add back
- Allows user to choose among differing interpretations of guidance
- Automatic accruals for payroll and nonpayroll costs
- Optimizes between
 - Covered Period or Alternative Payroll Covered Period
 - FTE computation methods
- Automatically applies safe harbors

This Application is Complicated!

- Complicated is what we do.
- It is our job to read the regulations, interpret them, apply it to your situation in the best way possible.
- Maximum forgiveness is the key
- We are happy to assist you with this “Tax Return” like form
- Please reach out to any of us, or your PKFOD contact

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