

Paycheck Protection Program Loan Forgiveness



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2:30 PM

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H.R. 7010 – PPP Flexibility Act



The significant changes within H.R. 7010 are;



- Covered Period increased up to 24-weeks, option to keep 8-week covered period.



- Reduces the 75% / 25% Non-Payroll Cost limitation to 60% / 40% on Non-Payroll Costs.



- Modifies the date from June 30th to December 31st to hire/rehire employees for forgiveness calculations.



- Additional Safe Harbor for the FTE Reduction Quotient.



- Extends the loan repayment period from 2 years to 5 years for **new** PPP Loans on or after June 5, 2020.



- *More to come on the SBA & Treasury Department's updated Rules, Guidance and **new Forgiveness Application**.*

Loan Forgiveness Summary



Loan Forgiveness will be the **lesser of** Lines 8 – 10 and further reduced by the Economic Injury Disaster Loan (EIDL) Advance.



Modified Total – Line 8

PLUS: Money Spent during the ‘Covered Period’ on ‘Eligible Expenses’

LESS: Salary/Hourly Wage Reduction

LESS: Full-Time Equivalent (FTE) Reduction Quotient



PPP Loan Amount – Line 9



Payroll Cost 60% Requirement – Line 10

Covered Period



Start Date

Same day the Paycheck Protection Program (PPP) Loan funds were received by the borrower.



Up to 24 Weeks or 168 Days

Loan funds received on April 20th, the Covered Period would be April 20th – October 4th

If elected, Business may select the original 8-week Covered Period.



Alternative Payroll Covered Period (APCP)

Bi-weekly or more frequent payroll cycles may elect the APCP.

APCP begins on the 1st day of the start of the next pay-period following the PPP Disbursement Date and is for 168 days.

If elected, APCP only applies to Payroll Costs (Cash & Non-Cash Compensation). APCP cannot be used for Non-Payroll Costs.

Eligible Expenses for Forgiveness



Payroll Costs

Cash Compensation

Non-Cash Compensation

Owners-Employees, Self-Employed and
General Partners Compensation



Non-Payroll Costs

Mortgage Interest Payments

Rent/Leases on Real or Personal Property

Utilities

Payroll Costs – Cash Compensation



Gross Salary, Wages, Tips, Commissions, Bonuses, and Similar Compensation



Paid Leave; PTO, Family, Medical or Sick (*Excluding Families First Coronavirus Response Act*)



Allowances for Dismissal or Separation for Individuals.



Other items to note:

- Max of \$46,154 cash compensation per FTE.
- FTE's principal place of residence must be within the United States.
- Form 1099 Independent Contractors should not be included.

Payroll Costs – Non-Cash Compensation



Health Insurance



Retirement Plan



State & Local Taxes Assessed (e.g. State Unemployment Insurance)



Other items to note:

- Non-Cash Payroll Costs, are not included in the \$46,154 cap per Employee.
- Only the Employer Costs should be included, do not include amounts that are withheld on behalf of the Employee.

Payroll Costs – Owner-Employees, Self-Employed and General Partners Compensation

Maximum Forgiveness Lesser of \$20,833 paid during the Covered Period, which is $\$100,000 \div 12 \times 2.5$ (*\$15,385 if elected 8-week cover period*) **or** Compensation Noted Below.

- **Self-Employed** - Based on 2019 net profit, Form 1040, Schedule C, Line 31, multiplied by 2.5/12
- **General Partners** - 2019 net earnings from self-employment, Schedule K-1, Line 14a (*Reduced by Section 179 deduction, Unreimbursed Partnership Expenses, and Depletion from Oil & Gas Properties*) multiplied by 0.9235, multiplied by 2.5/12
- **S-Corps** - 2019 cash compensation and employer retirement contributions, multiplied by 2.5/12
- **C-Corps** - 2019 cash compensation, employer retirement and health insurance contributions, multiplied by 2.5/12

Non-Cash Compensation costs are not forgivable for both Self-Employed Individuals and General Partners.

S-Corporation Owner Distributions are not forgivable.

Non-Payroll Costs



Mortgage Interest Payments

- Mortgage/Loan obligations on Real or Personal Property
- Payments of **Interest only**, not including Principal
- Does not include any Prepayments



Rent or Leases on Real or Personal Property

- Office
- Copiers/Printers
- Vehicles
- Other Items of Personal Property



Utilities

- Gas & Electricity
- Telephone & Internet
- Water
- Transportation



Other items to note

- All items must have been incurred, in-force, or in-service prior to February 15, 2020.
- Alternative Payroll Covered Period not allowed.

Paid or Incurred



Payroll costs are **paid** on the day the paychecks are distributed or the borrower originates an ACH credit transaction.



Payroll costs are **incurred** on the day they are earned and are eligible for forgiveness if they are paid no later than the next regular payroll date.



Non-Payroll costs expenses must either be:

- 1) Paid during the 24-week covered period, **or**
- 2) Incurred during the 24-week period, **and** paid by its next regular billing date, even if that due date is outside the 24-week covered period.

SBA Forgiveness Limitations



**Salary/Hourly Wage
Reduction**



**Full-Time Equivalent
(FTE) Reduction
Quotient**



**Payroll Cost 60%
Requirement**



**Economic Injury Disaster
Loan (EIDL) Advance**

Salary/Hourly Wage Reduction – Part 1

Reduction in Salary/Wages of **more than** 25% will result in a reduction of Loan Forgiveness.

Compare the Salary/Hourly wage percent reduction for the following periods for each individual Employee:

- 24-week 'Covered Period' (or 'Alternative Payroll Covered Period', if elected), to
- January 1 – March 31, 2020.

Safe Harbor –Salary/Hourly Reduction is **not** required if you meet A and B, or C.

- **A** - If average annual salary/hourly wage from Feb 15 – Apr 26, 2020 was **LESS** than Feb 15, 2020, see Step B.
- **B** - If average annual salary/hourly wage as of December 31, 2020 is **equal or greater** than February 15th, 2020, the safe harbor has been met and no Salary/Hourly Wage Reduction is required.
- **C** - Any employee who earned more than \$100k in 2019, no salary reduction is required.

Salary/Hourly Wage Reduction – Part 2

Example

Employee John Smith was paid an annual salary of \$72,000 in 2019. John was paid \$21,000 during the 24-week Covered Period and John was paid \$18,000 during the quarter January 1 – March 31, 2020.

- **Step 1:** John's average annual salary for the 24-Week Covered Period.

$$\$45,500 \quad (\$21,000 \div 24 \times 52)$$

- **Step 2:** John's average annual salary for the quarter January 1 – March 31, 2020.

$$\$72,000 \quad (\$18,000 \times 4)$$

- **Step 3:** Compare the wage periods to calculate the Percentage Decrease.

$$63.2\% \quad (\$45,500 \div \$72,000)$$

- **Step 4:** Calculate the amount of the annualized wage reduction in excess of 75%.

$$\$72,000 \times 75\% = \$54,000$$

$$\$54,000 - \$45,500 = \$8,500$$

$$\$8,500 \div 52 \times 24 = \mathbf{\$3,923.08 \text{ Wage Reduction}}$$

Salary/Hourly Wage Reduction – Part 3

Example

Employee John Smith was paid an annual salary of \$72,000 in 2019. John was paid \$21,000 during the 24-week Covered Period and John was paid \$18,000 during the quarter January 1 – March 31, 2020. **On December 31st, his salary was increased to \$75,000.**

- **Step 1:** John's average annual salary for the 24-Week Covered Period.

$$\$45,500 \quad (\$21,000 \div 24 \times 52)$$

- **Step 2:** John's average annual salary for the quarter January 1 – March 31, 2020.

$$\$72,000 \quad (\$18,000 \times 4)$$

- **Step 3:** Compare the wage periods to calculate the Percentage Decrease.

$$63.2\% \quad (\$45,500 \div \$72,000)$$

- **Step 4:** Calculate the amount of the annualized wage reduction in excess of 75%.

$$\$72,000 \times 75\% = \$54,000$$

$$\$54,000 - \$45,500 = \$8,500$$

$$\$8,500 \div 52 \times 24 = \mathbf{\$3,923.08 \text{ Wage Reduction} - \text{No longer applicable as Safe Harbor is met}}$$

Salary/Hourly Wage Reduction – Part 4

Example

Employee John Smith was paid \$22/hour in 2019. John was paid \$22/hour during the period, January 1 – March 31, 2020. John's hourly wage was reduced to \$15/hour during the 24-week Covered Period.

- **Step 1:** John's original hourly rate at 75%
 $\$16.50/\text{hr. } (\$22/\text{hr.} \times 75\%)$

- **Step 2:** Calculate the average hours worked from January 1 – March 31, 2020, assume its 390 Hrs.
 $30 \text{ Hours } (390 \text{ Hours} \div 13)$

- **Step 3:** Compare the hourly rates.
 $\$1.50 (\$16.50/\text{hr.} - \$15.00/\text{hr.})$

- **Step 4:** Calculate the amount of the annualized hourly reduction in excess of 75%.
 $30 \text{ Hours} \times \$1.50 = \$45.00$
 $\$45.00 \times 24 \text{ Weeks} = \mathbf{\$576.00 \text{ Wage Reduction}}$

FTE Reduction Quotient – Part 1



Step One

Select FTE Count Method

Either the 'Calculation' or 'Simplified' Method.



Step Two

Select a comparison period below to the Covered Period (or APCP) at your election using the same FTE Count Method

- A) February 15, 2019 - June 30, 2019
- B) January 1, 2020 - February 29, 2020
- C) For a Seasonal Employer Only: any 12-week period May 1, 2019 - Sept 15, 2019



Step Three

If Comparison Period > Covered Period
Calculate the FTE Reduction Percentage

This percent reduction will be placed on the amounts previously eligible for forgiveness.

Divide Covered Period by Comparison Period to calculate the FTE Reduction Quotient.

However, they may be eligible for the **Safe Harbor!**

FTE Reduction Quotient – Part 2



Calculation Method:

- For each FTE, take the average hours over the 24-weeks.
- Divide the average weekly hours by 40.
- Round up to the nearest tenth
- Maximum amount for each FTE is 1.0

Example One:

- FTE A: $46/40 = 1.0$
 - FTE B: $40/40 = 1.0$
 - FTE C: $30/40 = 0.8$
 - FTE D: $20/40 = 0.5$
 - FTE E: $20/40 = \underline{0.5}$
- 3.8 FTE's**



Simplified Method:

- FTE did work at least 40-hour week on average = 1.0
- FTE did not work at least 40-hour week on average = 0.5

Example Two:

- FTE A: $46/40 = 1.0$
 - FTE B: $40/40 = 1.0$
 - FTE C: $30/40 = 0.5$
 - FTE D: $20/40 = 0.5$
 - FTE E: $20/40 = \underline{0.5}$
- 3.5 FTE's**

FTE Reduction Quotient – Part 3

- **Safe Harbor** – A reduction in Loan Forgiveness due to FTE Reduction is not required if you meet A and B, or C or D or E.
 - **A** - FTE's from February 15 – April 26, 2020 was **LESS** than FTE's as of February 15, 2020, see Step B.
 - **B** - FTE's as of December 31st, 2020 is equal or greater than February 15th, 2020, safe harbor has been met and no Headcount Reduction is required.
 - **C** – No reduction in the number of FTE's between January 1, 2020 and the end of the Covered Period.
 - **D** - If a good-faith, written offer to rehire an employee during the covered period for the same wage but was rejected by the employee, will not result in a reduction of FTE forgiveness. Must report to State Unemployment Insurance Office within 30 days of employee refusal. This is also true if an FTE was Fired for Cause, Voluntarily Resigned, or Voluntarily Reduction in Hours.
 - **E** - If able to document an inability to return to prior February 15, 2020 levels of business activity between March 1 – December 31, 2020 due to maintenance of standards requirements related to COVID-19 for;
 - Sanitation
 - Social Distancing or
 - Other Workers/Customer Safety.

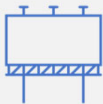
Payroll Cost 60% Requirement



Non-Payroll Costs are limited to 40% of Eligible Payroll Costs.



Eligible Payroll Costs amount is calculated before any reduction for FTE or Salary Reduction. Borrowers **will** receive partial forgiveness if under 60% of the loan proceeds are spent on payroll. The Treasury issued a statement on June 8th that they will remove the cliff requirement and allow for a partial reduction.



Example of Reduction

-PPP Loan Disbursement was for \$100,000

-Business had \$55,000 of Eligible Payroll Costs

-Line 10: \$91,667 ($\$55,000 \div 0.6$)

Economic Injury Disaster Loan Advance



If the Business received an Economic Injury Disaster Loan (EIDL) Advance, the final PPP Loan forgiveness will be further reduced by this amount.



EIDL Advance is not the same as the Economic Injury Disaster Loan.



Economic Injury Disaster Advance was a direct payment of \$1,000 - \$10,000 provided by the SBA based upon the number of FTE's. The Business would have been paid \$1,000 per FTE, at a max of 10.

Internal Revenue Service Notice 2020-32



IRS issued Notice 2020-32 on April 30, 2020.



PPP Forgiveness under Section 1106(i) of the CARES Act is Tax Exempt Income.



The Covered Expenses will **not** be deductible to the extent such loan amounts are forgiven.



Potential Legislative changes to this ruling are being discussed to overturn the IRS position and allow taxpayers to deduct the covered expenses.

Accounting for the PPP Loan

- ABC, Inc. received \$100,000 on April 20th for their PPP Loan.

Dr. Cash	\$100,000	
Cr. Debt		\$100,000

- ABC, Inc. was approved for \$90,000 of Loan Forgiveness on December 31st

Dr. Debt	\$90,000	
Dr. Accrued Interest Payable	\$ 525	
Cr. Other Income – Grants		\$90,525

- Interest should be accrued for at the on-set of the loan, regardless of the deferral period.
- Any costs paid to 3rd parties (Accountants, Lawyers, etc.) should be capitalized as Deferred Financing Costs.

Documentation Support for Forgiveness



Payroll Costs:

- **Cash Compensation**
 - Third-party Payroll Reports or Bank Statement
 - Form 941s
 - State Quarterly Wage Reports
- **Non-cash Compensation** (*Health Insurance/Retirement*)
 - Payment receipts, cancelled checks, and/or account statements.



Forgiveness Reduction Calculations

- Calculation workbook
- Payroll/Hour reports from third-party provider
- Safe harbor support, if applicable



Non-Payroll Costs:

- **Interest**
 - Amortization schedule and
 - Cancelled checks or account statements from February 2020 and the covered period.
- **Rent & Lease**
 - Lease agreement and
 - Receipts or cancelled checks or lessor account statements from February 2020 and the covered period.
- **Utilities**
 - Invoices from February 2020 and the covered period and
 - Receipts, cancelled checks, or statements.



Thank You!

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Thank you for attending!

If you have additional questions, please follow up with your NBT Banker.

Stay up to date by visiting our PPP Loan Forgiveness webpage at: www.nbtbank.com/forgiveness

