



WEBINAR

PPP Loan Forgiveness: What to Do Next?

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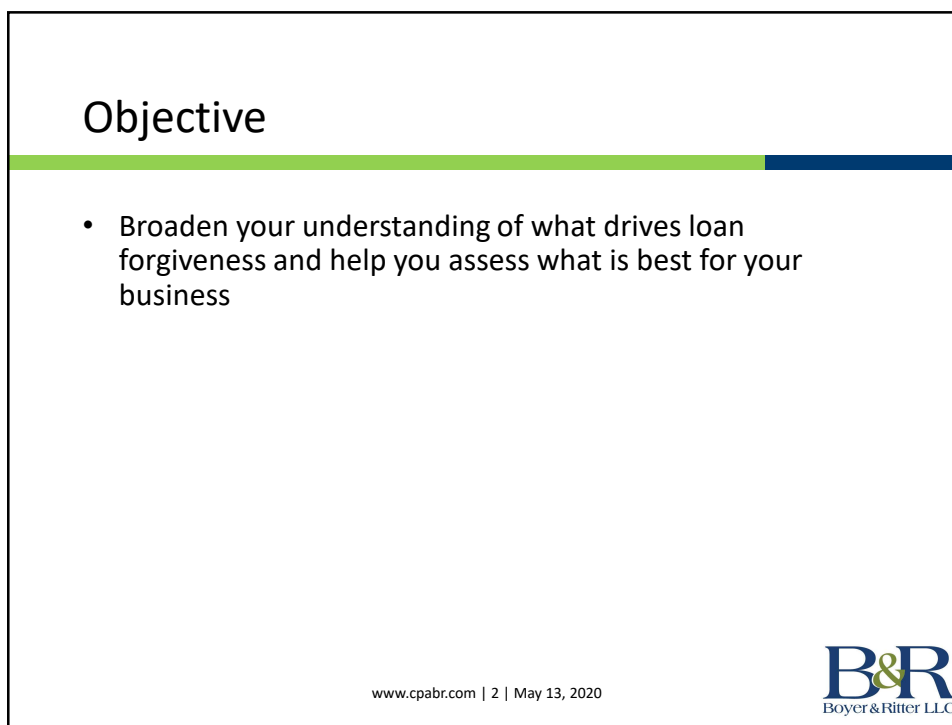
Moderated by: Jay Goldman, CPA

May 13, 2020

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Objective

- Broaden your understanding of what drives loan forgiveness and help you assess what is best for your business

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Agenda

- Cost Base - Allowable Costs vs. Forgivable Costs
- Reductions in Forgiveness
- Assumptions / Unresolved Issues
- Managing PPP

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PPP Loans

- Current Status
 - Funding – still available
- Non-Profit Eligibility
 - ONLY: 501c3 (charitable) and 501c19 (veterans)
 - **NOTE:** PPP loans are not considered federal financial assistance
- Certification of Need
 - Under \$2,000,000 – safe harbor as to good faith certification
 - Over \$2,000,000 –
 - Still need to demonstrate need
 - May be required to repay
 - Will not be subject to additional enforcement actions

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Payroll Costs (as defined)

- Payroll costs DO include:
 - Salary, wage, commission or similar compensation
 - Cash tips or equivalent
 - Vacation, parental, family, medical or sick leave
 - Allowance for dismissal or separation
 - Employer portion of:
 - Group health care benefits, including insurance premiums
 - Payment of any retirement benefit
 - Payment of state unemployment tax

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Payroll Costs (as defined)

- Payroll costs ALSO include:
 - Schedule C and Partnerships include Self-Employment Income for owners/partners as well as payroll costs
 - Self-Employment Income
 - Partners/Members - Line 14a of Schedule K-1 (Form 1065), multiplied by 0.9235 up to a maximum of \$100,000 per Partner/Member
 - Schedule C - Line 31 of 2019 Schedule C limited to a maximum of \$100,000

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Payroll Cost Calculation – Self Employed

Schedule C		Partnerships	
Company A		Company C	
2019 Schedule C Net Profit	100,000.00	2019 Parntership K-1 Box 14a	100,000.00
		Multiply by 0.9235	× 0.9235
			92,350.00
Divide by 12 months	÷ 12.00	Divide by 12 months	÷ 12.00
Multiply by 2.5	× 2.50	Multiply by 2.5	× 2.50
Maximum PPP Loan	20,833.33	Maximum PPP Loan	19,239.58
Company B		Company D	
2019 Schedule C Net Profit	100,000.00	2019 Parntership K-1 Box 14a	÷ 100,000.00
Employee payroll costs *	50,000.00	Multiply by 0.9235	× 0.9235
Total Eligible Costs	150,000.00		92,350.00
		Employee payroll costs *	50,000.00
			142,350.00
Divide by 12 months	÷ 12.00	Divide by 12 months	÷ 12.00
Multiply by 2.5	× 2.50	Multiply by 2.5	× 2.50
Maximum PPP Loan	31,250.00	Maximum PPP Loan	29,656.25

* rolling 12 month period

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Payroll Costs (as defined)

- Payroll costs do NOT include:
 - Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the covered period
 - People paid via a 1099
 - Employer portion of FICA and FUTA
 - Compensation for employees living outside the U.S.
 - No double dipping on EFMLA or EPSL wages under COVID-2

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Allowable vs. Forgivable

Costs	Allowable	Forgivable
Time Period	June 30	8 weeks
Payroll Costs (as defined)	YES	YES
Excess Compensation (ie in excess of \$100,000)	YES	NO
Group Health Care Benefits <u>During Periods of</u> Paid Sick, Medical or Family Leave	YES	NO
Payments of Interest on any Mortgage Obligation	YES	YES*
Interest on Any Other Debt Obligation Incurred Before Feb 15, 2020	YES	NO
Rent	YES	YES*
Utilities	YES	YES*
Other SBA 7(a) Allowable Costs	MAYBE	NO

* - Must have started prior to Feb 15, 2020

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Reductions in Forgiveness

- Did not spend it all on forgivable items
- Did not meet 75% tests
 - Allowable
 - Forgivable
- FTE Test
- Wage Reduction Test

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75% Tests

- Added by SBA – not in the law
- Allowable
 - At least 75% of the PPP loan proceeds shall be used for payroll costs
- Forgivable
 - Not more than 25% of the loan forgiveness amount may be attributable to non-payroll costs

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	FORGIVABLE		ALLOWABLE		
	8 Weeks	< June 30	TOTAL	FORGIVENESS	
EXAMPLE 1:					
Payroll Costs	600,000	150,000	750,000		
Non-Payroll Costs	200,000	50,000	250,000		
TOTAL	800,000	200,000	1,000,000	800,000	
EXAMPLE 2:					
Payroll Costs	550,000	200,000	750,000		
Non-Payroll Costs	250,000	-	250,000		
TOTAL	800,000	200,000	1,000,000	733,332	
EXAMPLE 3:					
Payroll Costs	550,000	200,000	750,000		
Non-Payroll Costs	166,000	84,000	250,000		
TOTAL	716,000	284,000	1,000,000	716,000	
EXAMPLE 4:					
Payroll Costs	500,000	200,000	700,000		
Non-Payroll Costs	200,000	100,000	300,000		
TOTAL	700,000	300,000	1,000,000	?????	

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FTE Test

- Divide the average number of full-time equivalent employees (FTE) per month during the 8-week period – by –
 - The average FTE employees per month between February 15, 2019 and June 30, 2019
 - or –
 - The average FTE employees per month between January 1, 2020 and February 29, 2020
- Whichever is less

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Wage Reduction Test

- Salary reduction of more than 25% for any employee making less than \$100,000 (on a per pay period basis in 2019) for the most recent full quarter (presumably the quarter ending March 31, 2020) compared to the 8-week period

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Forgiveness Calculation – Self Employed

Schedule C		Partnerships	
2019 Schedule C Net Profit	100,000.00	2019 Partnership K-1 Box 14a	100,000.00
		Multiply by 0.9235	× 0.9235
			92,350.00
Divide by 52	÷ 52.00	Divide by 52	÷ 52.00
Multiply by 8	× 8.00	Multiply by 8	× 8.00
Forgiveable owner compensation replacement	15,384.62	Forgiveable owner compensation replacement	14,207.69

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Re-hire Provisions

- Headcount
 - By June 30, 2020 you re-hire employees so your headcount is equal to what it was on February 15, 2020
- Compensation
 - By June 30, 2020 you have eliminated the reduction in salary compared to February 15, 2020
- Employees that decline rehire offers
 - Good faith offer in writing
 - Refusal is documented
 - Impacts unemployment

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Assumptions / Unresolved Issues

- ALLOWABLE COSTS
 - Do I have to spend 75% of the total loan proceeds on payroll costs? What happens if I don't?
 - Do the other SBA 7(a) loan allowable costs qualify?
 - Does rent include both real property and personal property?
 - Are there any restrictions on rents paid to a related party?
 - The definition of utilities includes "transportation". What is that?
- FORGIVABLE COSTS
 - Are there any recurring item exceptions to the "incurred and paid" concept for costs?

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Assumptions / Unresolved Issues

- REDUCTIONS IN FORGIVENESS
 - What is the definition of a Full-Time Equivalent (FTE)?
 - Does the "most recent full quarter" mean Q1 2020 for all employees? Or only those that were not furloughed in March?
 - For the wage reduction test, is the Q1 2020 wage intended to be pro-rated to the 8 week equivalent?
 - For the wage reduction test, how do you handle an employee who does not return for non COVID reasons?
 - In what order and to what amounts do you apply the various forgiveness reduction rules?

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The order of the 3 tests matters. Forgiveness amount ranges from \$500,000 to \$562,500 in this fact pattern.

Assume 75/25, Then FTE, Then Wage			Assume 75/25, Then Wage, Then FTE			Assume FTE, Then 75/25, Then Wage		
Loan Amount		1,000,000	Loan Amount		1,000,000	Loan Amount		1,000,000
Payroll Costs	550,000		Payroll Costs	550,000		Total Costs	800,000	
Eligible Non Payroll	183,333		Eligible Non Payroll	183,333		FTE Reduction Applied	75%	
		733,333			733,333			600,000
FTE Reduction Applied		75%	Wage Reduction Applied		(50,000)	Payroll Costs	550,000	
		550,000			683,333	Eligible Non Payroll	50,000	
Wage Reduction Applied		(50,000)	FTE Reduction Applied		75%			600,000
						Wage Reduction Applied		(50,000)
FORGIVENESS		500,000	FORGIVENESS		512,500	FORGIVENESS		550,000

Assume FTE, Then Wage, Then 75/25			Assume Wage, Then 75/25, Then FTE			Assume Wage, Then FTE, Then 75/25		
Loan Amount		1,000,000	Loan Amount		1,000,000	Loan Amount		1,000,000
Total Costs	800,000		Total Costs	800,000		Total Costs	800,000	
FTE Reduction Applied		75%	Wage Reduction Applied		(50,000)	Wage Reduction Applied		(50,000)
		600,000			750,000			750,000
Wage Reduction Applied		(50,000)	Payroll Costs	550,000		FTE Reduction Applied		75%
		550,000	Non Payroll Costs	183,333				562,500
Payroll Costs	550,000				733,333	Payroll Costs	550,000	
Non Payroll Costs	-		FTE Reduction Applied		75%	Non Payroll Costs	12,500	
FORGIVENESS		550,000	FORGIVENESS		550,000	FORGIVENESS		562,500

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Assumptions / Unresolved Issues

- END OF PROGRAM
 - What amount converts to term loan?
 - Loan Proceeds less Forgiven
 - OR
 - Allowable Costs less Forgiven
- Is the loan really tax-exempt income or does it generate non-deductible expenses?
 - Current interpretation of the law by the IRS will prevent businesses from deducting the portion of expenses that will be forgiven
 - Awaiting congressional reaction

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Managing PPP

- Do I bring all of my employees back?
- Do I need a separate bank account?
- What do I need to monitor?
 - Monitor total allowable / forgivable spend
 - Monitor FTE headcount weekly
 - Monitor compensation of pre COVID employees as compared to 8 week measurement period
 - Monitor payroll / non payroll cost ratio
 - Payroll must be greater than or equal to 75% of cost base
 - Non-payroll must be less than or equal to 25% of cost base

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Managing PPP

- Examples to consider to increase payroll cost base
 - Consider pay premium for key employees
 - Consider health insurance premium holiday
 - Consider pro-rated profit sharing or match

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COVID-19 News & Resource Center

The screenshot shows the Boyer & Ritter LLC website's COVID-19 News & Resource Center. The header includes the company logo, a 'CLIENT LOGIN' button, and social media icons. A navigation bar lists: SERVICES, INDUSTRIES, PROFESSIONALS, NEWS, CAREERS, ABOUT US, and CONTACT US. The main content area features the title 'Coronavirus (COVID-19) News & Resource Center' and a sub-header: 'Visit our News and Resource Center for the latest articles and regulatory updates related to COVID-19. We are committed to helping you stay informed with updates and guidance.' Below this, a section titled 'Have Questions?' states: 'Boyer & Ritter has created a COVID-19 task force. This team of professionals is well-informed on the latest information and regulatory updates. We will respond promptly.' Two yellow buttons are present: 'SPEAK TO A BOYER & RITTER PROFESSIONAL' and 'VIEW RESOURCE CENTER'. The background of the main content area features a stylized illustration of a coronavirus particle. The footer includes the website URL 'www.cpabr.com | 23 | May 13, 2020' and the Boyer & Ritter LLC logo.

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Questions?

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