



Paycheck Protection Program Loan Forgiveness Overview

New York Small Business Development Center
Tom Morley, Regional Director

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Agenda

- Review of Expenses Eligible/Not Eligible for Forgiveness
- Loan Forgiveness
- Requesting Loan Forgiveness
- Loan Conversion
- Helpful Tips
- Audits
- Interim Final Rules
- Resources

PPP Considerations

- Some thoughts to keep in mind as we look at the PPP program and forgiveness
- The purpose of the PPP is employee retention, that is why the funds are available, that's how they must be used
- The business 'deal' is with the *bank*, not SBA; SBA and Treasury are setting rules, the bank is interpreting and applying them
- Carefully read all documents, you are signing a contract, a debt instrument written by the bank, guaranteed by, not written by SBA
- What happens during the 8 weeks following receipt of the funds is very important to forgiveness, pay close attention to your numbers
- Do not listen to the rumor mill, 8 weeks is not becoming 6 months anytime soon, complete forgiveness irrespective of use while beneficial is not happening

Expenses Eligible for Forgiveness

Payroll Costs

The paid compensation with respect to employees that is:

- Employee salaries including employees' federal tax withholding, wages, commissions, or similar compensation to an annual rate of \$100,000
- Cash tips or the equivalent (based on employer records of past tips)
- Vacation, parental, family, medical or sick leave, dismissal or separation
- Payment for group health care benefits, including insurance premiums
- Payment of any employee retirement benefit
- Payment of state and local taxes assessed on the wages of employees
- For independent contractors or sole proprietors it is wages, commissions, income or net earnings from self-employment or similar compensation

Expenses Eligible for Forgiveness Payroll Costs on the Application

- Aggregate payroll costs from the last twelve months for employees whose principal place of residence is the United States.” (From the Interim Final Rule (part 2e))
- Payroll costs may be calculated based on either the prior 12 months OR the 2019 calendar year data.
- For seasonal employers, lenders may consider 2019 average payroll for the same period in 2020 for calculations.

Payroll Costs NOT Eligible for Forgiveness

- Compensation over \$100,000
- Employer-side federal employment taxes (FICA and Medicare) Employee federal tax withholding is a “payroll cost”
- Unemployment and disability paid by the employer
*the state portion is covered but not the **federal** portion*
- Payroll processing fees, workers compensation *if paid as a tax to a government entity*
- Any compensation of an employee outside of the U.S.
- Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116–127)

Expenses Eligible for Forgiveness

- Interest payment on mortgage incurred prior to February 15, 2020
- Payment of rent or a lease begun prior to February 15, 2020
- Payment on any utility for which service began before February 15, 2020
- Interest payments on any other debt obligations that were incurred before February 15, 2020;
- Sole proprietors may only claim interest, rent, and utilities if their 2018 or 2019 Schedule C lists those items
- To be eligible, the 'bill' must be in the company's name

Loan Forgiveness: Timeframe

- The Act establishes the borrower is eligible for loan forgiveness equal to the amount spent by the borrower during the 8-week period following loan origination
- The maximum amount that can be forgiven may not exceed the principal amount of the loan
- The performance period (8 weeks) begins immediately on receipt of the loan

Loan Forgiveness

- 75% Payroll Limitation (minimum)
- Headcount must not be less than 75% of number at application
- Salary and Wage Reduction Limitation
- Other Expenses

Loan Forgiveness - 75% Payroll Limitation

- If you spend at least 75% of your PPP loan on payroll costs, the entirety of the loan is eligible for forgiveness.
- If you spend less than 75% of your PPP loan on payroll costs, the maximum amount that can be forgiven is decreased
- The maximum forgiveness is decreased pro-rata based on the payroll costs as a percentage of the total PPP loan vs 75%

Loan Forgiveness - 75% Payroll Limitation

Example:

- Company A receives PPP funds of \$10,000
- Company A spends \$5,000 on payroll costs, \$4000 on rent, and \$1000 on utilities
- The maximum forgiveness is $\$5,000 / 75\% = \$6,666$

Loan Forgiveness -- Headcount

- If you keep all of your employees, the entirety of the loan may be forgiven.
- You won't be penalized for a reduction in employment or wages during the period from February 15, 2020 to April 26, 2020, if you rehire employees previously laid off or restore decreases in wages or salaries by June 30, 2020 to within 75% of pre 2/15
- Loan forgiveness will be proportionally reduced if the applicant reduces FTE headcount and/or reduces salaries and wages by more than 25%. Not maintaining headcount may not make the applicant completely ineligible for loan forgiveness.

Loan Forgiveness - Salary and Wage Reduction Limitation

- If you decrease an employee's wages during the 8-week period by more than 25% as compared to the most recent full quarter of employment for that employee, the forgivable portion is decreased, dollar-for-dollar, by the decrease to the employee's wages exceeding 25%

Loan Forgiveness - Other Expenses

Other qualifying expenses cannot make up more than 25% of the forgiven amount

Example #1

- Company C receives a PPP loan of \$100,000
- Company C spends \$75,000 on payroll
- Company C may claim no more than \$25,000 of other qualifying expenses for forgiveness
- Maximum forgiveness: \$100,000 (if the business has \$25,000 in other qualifying expenses)

Loan Forgiveness - Other Expenses

Other qualifying expenses cannot make up more than 25% of the forgiven amount

Example #2:

- Company D receives a PPP loan of \$100,000
- Company D spends \$60,000 on payroll
- Company D may claim no more than \$20,000 of other qualifying expenses for forgiveness
- Maximum forgiveness: \$80,000 (if the business has \$20,000 in other qualifying expenses)

Requesting Loan Forgiveness

For the loan to be forgiven at the end of the 8-week period:

- The borrower must make a request to the lender for forgiveness by providing documentation of payments made under the covered period
- The lender has 60 days to review and approve the request for forgiveness
- If a small business received an EIDL grant AND a PPP loan, the EIDL grant will be subtracted from the amount of the Paycheck Protection loan that is forgivable.

Requesting Loan Forgiveness

Borrower have certified in good faith that funds are needed for COVID-19 related purposes, that the funds will be used to retain workers, and that the request is not duplicative of other SBA funds for the same purpose like the EIDL loan.

Requesting Loan Forgiveness

Required documentation to submit to your lender with your request for loan forgiveness:

- Borrower Certification required by Section 1106(e)(3) of the Act, to substantiate your request for loan forgiveness
- If you have employees, submit Form 941 and state quarterly wage unemployment insurance tax reporting forms or equivalent payroll processor records that correspond to the covered period (with evidence of any retirement and health insurance contributions).
- You must submit evidence of business rent, business mortgage interest, payments on real or personal property, or business utility payments during the covered period if you used any loan proceeds for those purposes and are seeking forgiveness.

Loan Conversion

- PPP starts off as a loan
- Interest is accruing from day one
- The unforgiven balance amortizes over the remainder of the 2 year term with payment beginning 6 months after disbursement.
- Interest on forgiven portion of loan will also be forgiven.

Helpful Tips

- If you applied for PPP but have not yet received funding, check with your lender or find another one, there's plenty of money available.
- The SBDC can provide you with referrals for PPP lenders still accepting applications.
- Most importantly, make sure to read and understand all loan and forgiveness terms before signing closing documents for your PPP loan.
- Specific questions about PPP forgiveness should be directed to your lender, that's who you are signing a debt instrument with.

Helpful Tips

Tracking Expenses:

- Work with your accountant to come up with the best way to track the PPP monies received and expenses for which you will request forgiveness
- Keep records of all expenses for which you plan to request forgiveness. These records should include payroll records, copies of invoices, documentation of payments, and receipts.

Helpful Tips

Tracking:

- Monitor your expenses weekly during the 8-week period
- Watch head count or FTE with each payroll – as this is going to be important; (Cannot pay less employees more money each and get the full forgiveness)
- Enter reminders in your calendar:
 - Date to prepare the documents for submission to the lender
 - Date for which you need to apply for forgiveness

PPP Loan Audits

- 4/28/20 – Treasury Secretary Steve Mnuchin announced all PPP loans over \$2 million will be audited, other smaller loans may also be
- The SBA will conduct the reviews
- Limited safe harbor for firms to repay the PPP loan by May 14, 2020 (Interim Final Rule 4/24/20)

The Actual Laws and Regulations!

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

- Interim Final Rule 1 (4/2/2020)
- Interim Final Rule on Applicable Affiliation Rules (4/3/2020)
- Interim Final Rule on Additional Eligibility Criteria and Requirements for Certain Pledges of Loans (4/14/2020)
- Interim Final Rule on Requirements for Promissory Notes, Authorizations, Affiliation, and Eligibility (4/24/2020)
- Interim Final Rule on Additional Criterion for Seasonal Employers (4/28/2020)

PPP Resources

- SBA website for Paycheck Protection Program
- www.sba.gov/PPP
- Updated PPP FAQ – Updated 4/28/20
- <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>

How to calculate maximum loan amounts – by business type -- posted 4/24/20

- <https://home.treasury.gov/system/files/136/How-to-Calculate-Loan-Amounts.pdf>

Need Assistance?

Free and confidential assistance is available from any SBDC.

Your local SBDC is a partner of the BCW, call us at the BCW or 845-356-6065 for specific answers to your questions

Electronically contact an SBDC near you:

<http://www.nysbdc.org/appointment.html>



Any Questions?

