

PPP Loans: An Initial Look at Loan Forgiveness



Presented by Walz Group | April 14, 2020

WITH YOU TODAY



Dan Massey, CPA
Partner, Assurance



Ben Ritenour, CPA
Manager, Assurance

INTRODUCTION

- CARES Act signed into law 3/27/2020
- Paycheck Protection Program (PPP) – most popular short-term feature for businesses
- Apply through banks, who work with SBA to provide loans for up to \$10M
- Attractive feature of PPP is loan forgiveness



OUTLINE

- Caveats
- Forgivable Uses of PPP Loan
- Calculating Forgiveness
- Planning
- Unclear Portions of the Law
- How Walz Group Can Help
- Question & Answers



CAVEATS

- SBA will be providing further guidance on Forgiveness
- Treasury has FAQs on website that are updated multiple times per week
- Walz Group forgiveness tools are for planning purposes
- Will not go into every conceivable scenario
- A number of areas need additional clarification
- Key terms: “forgivable uses” vs. “allowable uses”



FORGIVABLE USES

- Eight weeks, starting with day funds are in your account, of:
 - Costs incurred and payments made
 - Payroll and related costs
 - Gross wages limited to \$100k/yr rate (\$15,385 for 8 weeks)
 - Retirement benefits
 - Group health care benefits less employee contributions to plan
 - PA unemployment taxes
 - Occupancy costs and interest
 - Rent under lease agreement in place as of 2/15/2020
 - Interest on debt (mortgage on real or personal property) in place as of 2/15/2020
 - Utilities (water, gas, electric, telephone, internet, transportation)



CALCULATING FORGIVENESS

- Based on 8-week spend of forgivable uses
 - Occupancy and interest cannot be more than 25% of total 8-week spend (per SBA guidance, not included in Act)
 - Overall spend cannot be greater than loan amount
- Breaks down into three facets
 - Total forgivable spend
 - **MULTIPLIED BY**
 - Forgiveness ratio
 - Two methods of determining forgiveness ratio
 - **LESS**
- Wage reduction factor



CALCULATING FORGIVENESS

- **Forgiveness ratio**
 - **“Fractional method”**
 - Numerator – Average monthly full-time equivalents (FTEs) for the eight-week period matching the forgivable spend period
 - FTE based on Affordable Care Act
 - 30 hrs/wk
 - Less than 30 hrs/wk are fractional FTEs
 - Denominator - EITHER
 - Average monthly FTEs for 2/15/2019 – 6/30/2019, OR
 - Average monthly FTEs for 1/1/2020 – 2/29/2020
 - Denominator is choice of borrower
 - Choose lower denominator to get better ratio



CALCULATING FORGIVENESS

- Forgiveness ratio
 - “100% method”
 - Can ignore fractional method if:
 - Any wage reduction incurred between 2/15/2020 and 4/26/2020 is reinstated by 6/30/2020, AND
 - Any workforce reduction (FTEs) incurred between 2/15/2020 and 4/26/2020 is reinstated by 6/30/2020
 - Only covers 100% of forgivable spend, not 100% of loan amount



CALCULATING FORGIVENESS

- Wage reduction factor
 - Compares wages during 8-week covered period to most recent full quarter (generally Q1 of 2020)
 - For employees under \$100k/yr annually
 - If wages are reduced by more than 25%, forgiveness decreases dollar-for-dollar in comparison to amounts greater than 25% reduction



PLANNING

- Questions you need to ask
 - Do I have work for my employees?
 - Are my employees receiving more on unemployment?
- Defer employer SS tax until notified of forgiveness
- Dates to know
 - Applications for forgiveness due 10-30 days after 8-week period ends
 - Companies funded on April 6 would have until July 1 to apply using 30-day window
 - Very close to June 30 “100% method” reinstatement deadline
 - Forgiveness decision from lender due within 60 days of forgiveness application. SBA has another 15 days to process.



PLANNING

- Read covenants related to PPP loan
 - Some banks are requiring borrowers to commit to acts that would maximize forgiveness
 - Retain workforce
 - Retain wage levels
- Determine FTEs for past periods now
 - 2/15/2019 through 6/30/2019
 - 1/1/2020 through 2/29/2020
- Be prepared to react to clarifications in Act
- Track your expenses
 - Allowable use period is 2/15/2020 through 6/30/2020; forgiveness period is 8 weeks from loan funding.



UNCLEAR PORTIONS OF LAW

- **Rent**
 - No specific mention in law about related party rent being excluded, but a lease agreement needs to be in place as of 2/15/2020
 - Rent appears to be for both real and personal property
 - Some uncertainty regarding treatment of capital leases
- **Salary reductions**
 - 8-week covered period is compared to most recent quarter, a 13-week period
 - Presumption is that the two periods are prorated to be of comparable length
 - A longer comparable length (13 wks vs. 8 wks vs 1 wk) affects amount of forgiveness reduction



UNCLEAR PORTIONS OF LAW

- “100% method”
- Reductions must be reinstated by 6/30/2020
 - No word on how soon before 6/30/2020 they must be in place or how long after 6/30/2020 they must stay in place
- **General**
- **Incurred and paid**
 - Seems to discourage prepaid rent
 - Be prepared to issue a payroll on the final day of the 8-week covered period
- **Penalties for misuse of proceeds**
- **Documentation requirements**



HOW WALZ GROUP CAN HELP

- Provide spreadsheet to calculate forgiveness
- Provide guidance on interpreting CARES Act
- Help calculate FTEs for past applicable periods
- Help run scenarios for future periods



Q & A

Questions / comments?

- Use chat feature on webinar
- Contact us directly:

Dan Massey, CPA (Principal)
dmassey@walzgroupcpa.com

Ben Ritenour, CPA (Manager)
[brittenour@walzgroupcpa.com](mailto:britenour@walzgroupcpa.com)

717-392-8200

