

PPP LOANS: OBSERVATIONS FROM THE APPLICATION



Presented by Walz Group | May 20, 2020

WITH YOU TODAY



Dan Massey, CPA
Partner, Assurance



Ben Ritenour, CPA
Manager, Assurance

INTRODUCTION

- CARES Act signed into law 3/27/2020
- Sporadic guidance received through May 14
- Application and instructions for the application received May 15



OUTLINE

- Select information since our April 14 webinar
- Caveats
- What We Learned
- What We Didn't Learn
- How Walz Group can help
- Question & Answers



SELECT INFORMATION SINCE APRIL 14

- **Taxability of PPP Forgiveness**

- Per the law
 - Income not taxable
- Per the IRS
 - Expenses not deductible
- Lawmakers pushing back

- **Scrutiny of PPP Loans**

- Loans over \$2 million will be audited in some capacity.
- Any borrower that received PPP loan(s) with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.
- “Check the Box” if borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million.



CAVEATS

- Loan application included instructions that many banks disregarded.
- To be determined how they utilize forgiveness application instructions.
- Treasury has FAQs and guidance on website that are updated multiple times per week.
- Not sure what is yet to come.



WHAT WE LEARNED

- **4 Parts of Application**
 - The PPP Loan Forgiveness Calculation Form (required)
 - PPP Schedule A (required)
 - The PPP Schedule A Worksheet (recommended)
 - The (optional) PPP Borrower Demographic Information Form
- **Representations and certifications required again**



WHAT WE LEARNED

- **Alternative Payroll Covered Period:** For administrative convenience, Borrowers **with a biweekly (or more frequent)** payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date (the “Alternative Payroll Covered Period”).
- An eligible nonpayroll cost must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period...Count nonpayroll costs that were both paid and incurred only once.



PAYROLL COVERED PERIODS

Covered Period

| April '20 | | | | | | |
|-----------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | | | 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 | | |

| May '20 | | | | | | |
|---------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | | | | | 1 | 2 |
| 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| 31 | | | | | | |

| June '20 | | | | | | |
|----------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 | | | | |

Alternative Payroll Covered Period

| April '20 | | | | | | |
|-----------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | | | 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 | | |

| May '20 | | | | | | |
|---------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | | | | | 1 | 2 |
| 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| 31 | | | | | | |

| June '20 | | | | | | |
|----------|----|----|----|----|----|----|
| S | M | T | W | T | F | S |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 | | | | |

PPP Loan Proceeds Received and 8 Week Period

8 Week Period

Pay Period End Date

Pay Dates



WHAT WE LEARNED

- Payroll costs are considered paid on the day that paychecks are distributed or the Borrower originates an ACH credit transaction. Payroll costs are considered incurred on the day that the employee's pay is earned. Payroll costs incurred but not paid during the Borrower's last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if paid on or before the next regular payroll date.



WHAT WE LEARNED

- \$15,385 is what is to be used for \$100k prorated to 8 weeks.
- Owner compensation is limited to lesser of \$15,385 or 8/52 of 2019 compensation.
- FTE Calc – Must be consistent
 - Average number of hours paid per week divided by 40, or
 - 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours.
 - Owners are not FTE's.
 - FTE consideration for rehire refusals, terminations, resignations, and requested hour reductions.



FTE CALC EXAMPLE

* Do Not Include Owners

* Only include those whose principal state of residence is in the United States

| Employee Name* | SSN-Last 4 digits | Hourly/ Salary | Wk 1 | Wk 2 | Wk 3 | Wk 4 | Wk 5 | Wk 6 | Wk 7 | Wk 8 | Total Hrs | Weeks | Hrs/Wk | Actual | Simple |
|----------------|----------------------|-------------------|------|------|------|------|------|------|------|------|-----------|-------|------------|--------|--------|
| | | | ** | | | | | | | | | | | FTE | FTE |
| Employee A | 1234 | Hourly | 38 | 40 | 37 | 39 | 38 | 39 | 37 | 36 | 304.00 | 8 | 38 | 1.00 | 0.50 |
| Employee B | 5678 | Hourly | 29 | 29 | 25 | 25 | 28 | 28 | 25 | 26 | 215.00 | 8 | 26.875 | 0.70 | 0.50 |
| Employee C | 3456 | Hourly | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6.00 | 8 | 0.75 | - | 0.50 |
| Employee D | 6789 | Salary | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 320.00 | 8 | 40 | 1.00 | 1.00 |
| | | | | | | | | | | | | | Total FTEs | 2.70 | 2.5 |

**Hourly - Hrs Worked, Salary - Hrly Expectations (40 unless otherwise arranged)



WHAT WE LEARNED

- **FTE Reductions Safe Harbor**
 - No further clarification from information in original Cares Act
 - The Borrower is exempt from the reduction in loan forgiveness based on FTE employees described above if both of the following conditions are met: (1) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (2) the Borrower then restored its FTE employee levels by not later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.
 - Additional Option - No Reduction between January 1, 2020 and the end of the Covered Period.
- **Appears to be independent of Salary/Hourly Wage Reduction**



WHAT WE LEARNED

- **Salary/Hourly Wage Reduction**
 - Based on average annual salary or hourly rate
 - For hourly employees, 25% calculation only comes into play if rate was reduced
 - Does not need to be considered if employee received compensation from the Borrower at an annualized rate of more than \$100,000 for **ANY** pay period in 2019.
 - On an employee by employee basis



WHAT WE LEARNED

- **Salary/Hourly Wage Reduction Safe Harbor**

- Was the average annual salary or hourly wage during the Covered Period or Alternative Payroll Covered Period for a given employee at least 75% of their average annual salary or hourly wage between January 1, 2020 and March 31, 2020?
 - If yes, Safe Harbor met. No reduction needed.

OR

- Was the average annual salary or hourly wage as of February 15, 2020 for a given employee greater than their average annual salary or hourly wage between February 15, 2020 and April 26, 2020?
 - If Yes, was the given employee's average annual salary or hourly wage as of June 30, 2020 equal to or greater than what it was as of February 15, 2020?
 - If yes, Safe Harbor met. No reduction needed.



WHAT WE LEARNED

- 75%/25% Rule

| | New | Old | | New | Old |
|--------------------|--------|---------|--|--------|---------|
| Payroll Costs | 50,000 | 50,000 | | 50,000 | 50,000 |
| Non Payroll Costs | 25,000 | 25,000 | | 25,000 | 25,000 |
| Non-Payroll Limit | - | (8,333) | | | (8,333) |
| Forgivable Costs | 75,000 | 66,667 | | 75,000 | 66,667 |
| Reduction Factor | 0.8 | 0.8 | | 1.0 | 1.0 |
| Forgiveness Amount | 60,000 | 53,333 | | 75,000 | 66,667 |
| | 66,667 | | | 66,667 | |

- If applicable, SBA will deduct EIDL Advance Amounts from the forgiveness amount remitted to the Lender.
 - Not done on the application



WHAT WE DIDN'T LEARN

- Thankfully, a lot of answers have been provided.
- Expect interpretations will need to be made along the lines of “can I include _____ under the definition of _____?”.
- What additional guidance will be provided in upcoming weeks.
- As time moves on, communication with your specific bank will become increasingly critical in determining how they will interpret certain language.



WHAT WE DIDN'T LEARN

- How elimination of FTE reductions by June 30 is to be substantiated.
- Calculation of Salaried FTEs.
- When/How allowable uses are to be calculated.
- How to handle 8-week loan forgiveness covered periods that go beyond June 30.
 - Interaction with allowable uses.
 - Appears forgiveness is based on 8 weeks, regardless of whether it goes beyond June 30.
 - June 30 is still the baseline for elimination of reductions.



HOW WALZ GROUP CAN HELP

- Help you develop a strategy to maximize the use of PPP loan funds that align with business operations and minimize the amount of reduction from either (i) a reduction in full-time equivalent (FTE) employees, or (ii) a reduction to salary and wages. This strategy will be based on the SBA guidance currently available at the time our engagement team begins and as further guidance is provided. The strategies and computations discussed below will be updated to reflect these changes.
- Monitor the spending of your PPP loan proceeds, both payroll and non-payroll costs, to evaluate whether it would be beneficial to rehire and pay additional wages before June 30, 2020 to some or all employees that were terminated between February 15, 2020 and April 26, 2020.
- Help you accumulate and organize the historic baseline information that will be compared to the data from your 8-week covered period.
- Calculate the number of FTE employees for each period relevant to the loan forgiveness calculation, both historical and projected.



HOW WALZ GROUP CAN HELP

- Identify those employees, and relative wages, whose reduction in salaries and wage could result in a reduction of loan forgiveness, then monitor those wages to maximize loan forgiveness.
- Compare the 8-week covered period data to the baseline data and compute your preliminary loan reduction (if any) based on the decrease in FTEs and wages.
- Prepare an electronic binder that contains relevant documentation, including flow of funds, that you can provide to your lender when you request loan forgiveness. This binder can also be used as support during a future SBA review of your loan.
- Review options for additional relief. Companies receiving PPP loans are still eligible for the Main Street Lending program as well as a number of other loans, grants and insurance recovery.
- Strategy for the path forward. Consider leading practices and strategies to preserve cash, manage liquidity, optimize operations, manage risk and drive cost savings as you embark on the process of returning to work and beyond.



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

