

# So Your Payroll Protection Loan Got Funded... What Now??

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**Things are changing rapidly. This information is accurate at the time of presentation.**

**Please note that this webinar and the material contained herein has been prepared for informational purposes only and is not intended to provide, nor should be relied upon for, tax advice. Please consult with a certified tax professional and/or certified lender for advice and recommendations.**

# Presentation



1. General Overview
2. Maximizing Forgiveness
3. Further Reductions
4. Documentation

# ✓ General Overview

- **3/27 CARES act included \$2.3 trillion relief package**
- **Headline was the creation of PPP Under Section 7a of SBA**
  - ✓ **designed to put \$600 billion in hands of small businesses for use in paying wages and critical expenses**
- **PPP loan is a loan in name only – once borrower receives funds, the amount spent during the next (previously 8, now 24) weeks on payroll, mortgage interest, rent and utilities is eligible for forgiveness**

# ✓ General Overview (cont'd)



1. At Least 60% must be used for payroll, health insurance and pension contributions (increased from the original 75% requirement).
2. Your banker is your gatekeeper. The banker will be the one who determines the amount of forgiveness.

# ✓ Maximizing Forgiveness



1. Forgiveness is based on the amounts spent on eligible payroll and other expenses in the 24-week period (or the alternative covered period). This was previously an 8-week covered period.
  - a) You may opt to keep the 8-week period
2. The 24-week period begins on the date of funding of the loan. The alternative covered period is the 24-week period beginning with the 1<sup>st</sup> payroll starting after the funding date.
3. Eligible expenditures are amounts “paid and incurred in the period.”
  - a. This was significantly relaxed by the interim final guidance as of May 22<sup>nd</sup>.

# “Paid or Incurred”

- Costs “paid or incurred” within covered period eligible for forgiveness
  - special rules govern “paid or incurred” for payroll costs
  - “paid” is date distributed (so you could immediately pay wages that had been earned prior to the covered period)
- “Incurred” added flexibility in guidelines
  - Payroll costs incurred for your last pay period of the 24-week period are eligible for forgiveness as long as they are paid no later than the next regular payroll date
- For non-payroll costs, expenses must either be paid during covered period or incurred during covered period and paid by next regular due date, even if that due date is outside covered period

# ✓ Maximizing Forgiveness (cont'd)

## 1. Eligible expenditures consist of:

### a. 60% expenditures – Payroll costs (originally 75%)

#### i. Payroll

a) Limited by the amount of \$100k per person annualized – \$8,333 per month

b) Further limited by payroll limitations for owners

#### ii. State Employer Taxes

#### iii. Pension Contribution

#### iv. Health insurance

### b. 40% Expenditures (originally 25%)

#### i. Rent

#### ii. Mortgage Interest

#### iii. Utilities

#### iv. Internet/Telephone

#### v. Gasoline for Transportation Vehicles



# ✓ Reduction in Loan Forgiveness

- a. **“Salary Reduction.”** Forgiveness reduced if more than 25% reduction in pay rate for employees making less than \$100k per year. Compare:
  - covered period – average annual salary for each employee 24-month period starting when loan is funded
  - reference period – average annual salary for each employee from January 1, 2020 through March 31, 2020
- b. **FTE Reductions.** Compare:
  - covered period – average FTEs during 24-week covered period
  - reference period – average FTEs using either:
    - 2/15/2019 to 6/30/19 or
    - 1/1/2020 to 2/29/2020

**Safe Harbor – Restore to 2/15/20 FTE level by 12/31/20 (was 6/30/20)**

# ✓ Reduction in Loan Forgiveness (cont'd)

## Exemption for Employees Who Refuse to Come Back to Work

Employees whom a borrower offered to rehire are generally exempt from the loan forgiveness reduction calculation if:

1. The borrower made a good faith, written offer to rehire such employee during the covered period
2. The offer was for the same salary and same number of hours as earned by such employee in last pay period prior to separation
3. The offer was rejected by the employee in writing
4. The borrower maintains records of the offer and its rejection
5. The borrower informed the applicable state unemployment insurance office of such employee's rejected offer within 30 days of the rejection

# Forgiveness & Taxes



- Forgiveness of loan is tax free
- NEW – IRS issued recent guidelines that expenses “allocable to tax exempt income” are not deductible by payor
- Expenses paid by borrower – to the extent of forgiveness on tax free basis – will NOT be deductible

# What is an Average FTE??

**Determine average number of hours worked per week  
for each qualifying employee**

**Divide by 40 (i.e. 30 hours/week is .75 FTE  
Maximum is 1**

**Alternatively, skip math, use 1 for every 40-hour  
employee and .5 for everyone who didn't work 40 hours**


# Loan Forgiveness Application Released 5/22

**You will need:**

- **PPP Loan amount**
- **PPP loan disbursement date**
- **Employees (FTE) at time of loan application**
  - **Employees (FTE) at time of forgiveness**
  - **Payroll schedule**
- **Covered period (was 8 weeks, now 24 weeks)**

# Additional Changes from new PPP Guidelines (HR 7010)

In addition to the extension of covered period to 24 weeks, and increase in eligible non-payroll costs to 40%, HR 7010 created the following changes:

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1. The maturity date of the non-forgiven PPP loan portion was extended from 2 years to 5 years
  2. It appears that if a borrower fails to spend 60% of loan proceeds on payroll costs, **NONE** of the loan will be forgivable
    - a. The SBA has clarified that partial loan forgiveness will indeed still be available under the new 60% threshold. Specifically, if a borrower uses less than 60% of the loan amount for payroll costs during the forgiveness covered period, the borrower will continue to be eligible for partial loan forgiveness.

# Additional Changes from new PPP Guidelines (HR 7010)

3. Period to restore FTEs to February 15 safe harbor level extended from June 30 to December 31
4. New relief for businesses that remain partially or fully closed through 12/31/2020
  - Loan forgiveness will NOT be reduced when borrower experiences loss of FTEs if borrower, in good faith, is able to document:
    - ✓ inability to rehire individuals who were employees on 2/15/20
    - ✓ inability to hire similarly qualified employees for unfilled positions on or before 12/31/20
    - ✓ inability to return to 2/15/20 level of activity due to compliance with requirements of government orders - HHS or CDC - during period from 3/21/20 to 12/31/20
5. PPP Borrower may now defer all of 2020 Social Security tax into 2021 and 2022, even if PPP loan is forgiven

# ✓ Documentation

1. Separate bank account
2. Copy payments made and back-up for each period, and keep them in a file
3. Attach **ALL OF THE DETAIL** as referenced in the Loan Forgiveness Application



**QUESTIONS**

# THANK YOU

TAKE CARE



& BE SAFE

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