

Paycheck Protection Program (PPP) Loan Forgiveness

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SOBELCO

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DISCLAIMER



- **PPP** is a work in process
 - Many questions still exist
 - This presentation is our best assessment at this time
 - Only thing we know for sure is that calculations will change and some of our interpretations may be mistaken
- **Proceed with caution**



SIX STEP PROCESS

- **Determine Loan Amount**
- **Calculate the Tentative Allowable Forgiveness Amount (TAFA)**
- **Calculate Full Time Equivalent (FTE) Haircut**
- **Calculate Compensation Reduction Haircut (CRH)**
- **Determine Allowable Forgiveness Amount**
- **Payback Non-Forgivable Loan (Two Years @ 1%)**



Case Study Facts

	PT/FT	Hours per Week	Hourly Pay Rate	Annual Salary	Cash Compensation Cap (\$100,000)	Employer Share Health Insurance Cost	Calendar Year 2019 Compensation Including Benefits
Henderson	Part-time	10	\$25.00	N/A	\$13,000	\$0	\$13,000
Brock	Part-time	20	\$12.50	N/A	\$13,000	\$0	\$13,000
Hamilton	Part-time	25	\$15.00	N/A	\$19,500	\$0	\$19,500
Cobb	Part-time	30	\$15.00	N/A	\$23,400	\$0	\$23,400
Raines	Full-time	40	\$45.67	\$95,000	\$95,000	\$10,000	\$105,000
Coleman	Full-time	40	\$36.06	\$75,000	\$75,000	\$0	\$75,000
Latham	Full-time	40	\$28.85	\$60,000	\$60,000	\$0	\$60,000
Collins	Full-time	40	\$57.69	\$120,000	\$100,000	\$10,000	\$110,000
Carey	Full-time	40	\$72.12	\$150,000	\$100,000	\$10,000	\$110,000
Wagner	Full-time	40	\$81.73	\$170,000	\$100,000	\$10,000	\$110,000
					\$598,900	\$40,000	\$638,900



Determine Loan Amount

Employee	Eligible Compensation For Avg Monthly Payroll Calculation	*2019 Calendar Year Payroll Costs, Capped at \$100,000 Plus Benefits
Henderson	\$ 13,000	
Brock	\$ 13,000	
Hamilton	\$ 19,500	
Cobb	\$ 23,400	
Raines	\$ 105,000*	
Coleman	\$ 75,000	
Latham	\$ 60,000	
Collins	\$ 110,000 *	
Carey	\$ 110,000 *	
Wagner	\$ 110,000 *	
	\$ 638,900	
Divided By 12 Months	<u>12.00</u>	
Avg Monthly Payroll	\$ 53,242	
	<u>2.50</u>	
PPP Loan Amount	\$ <u>133,104</u>	



Calculate TAFA

- **Eight Weeks (Not Two Months) of Allowable Payroll and Permitted Expenses**
 - **Allowable Payroll = Total Incurred & Paid Within Eight Weeks Following Funding**
 - **Limit of \$100,000 in Annual Compensation Per Employee, Plus**
 - **Employer Provided Health Benefits, State Payroll Taxes (SUI?), Pension**
 - **Permitted Expenses**
 - **Rent**
 - **Utilities**
 - **Mortgage Interest**



Calculate TAFA (Cont'd)

Proceeds Used for Rent and Utilities:		<u>Annualized Rent</u>
<u>Payments made:</u>		
Rent	\$ 5,000.00	\$ 60,000.00
Utilities	\$ <u>1,500.00</u>	
	\$ 6,500.00	
	<u>x 2.00</u>	
Two payments (May 1 and June 1)	\$ <u>13,000.00</u>	
8 Weeks of Forgivable Rent & Utilities	\$ 12,000.00	

Loan Funds Received	4/13/2020		
8 week period ends:	6/8/2020	56 Days	
Pay Frequency:	Semi-monthly		
	Pay Dates in 8-week Period	Pay Period	
	4/15/2020	3/31/20-4/14/20	
	4/30/2020	4/15/20-4/29/20	
	5/15/2020	4/30/20-5/14/20	
	5/31/2020	5/15/20-5/30/20	
			Supplemental payroll on 6/8/20
	6/15/2020	5/31/20-6/14/20	5/31/20 - 6/8/20

INCURRED & PAID



Calculate TAFA (Cont'd)

<u>Employee</u>	Payroll Related Costs Paid During Covered	
	<u>8-Week Period</u>	<u>Annualized</u>
Henderson	\$ 0.00	\$ 0.00
Brock	\$ 1,600.00	\$ 10,400.00
Hamilton	\$ 1,920.00	\$ 12,480.00
Cobb	\$ 1,920.00	\$ 12,480.00
Raines	\$ 16,154.00	\$ 105,000.00
Coleman	\$ 11,539.00	\$ 75,000.00
Latham	\$ 6,615.00	\$ 43,000.00
Collins	\$ 16,923.00	\$ 110,000.00
Carey	\$ 16,923.00	\$ 110,000.00
Wagner	\$ 16,923.00	\$ 110,000.00
	\$ 90,517.00	\$ 588,360.00
Rent & Utilities	\$ 12,000.00	
TAFA	<u>\$102,517.00</u>	



FTEs for Loan Forgiveness

- SBA still has not given a specific definition for FTE
 - 30 hours per week?
 - 40 hours per week?
- We will be using 30 hours per week as the basis for an FTE for our examples



Key Dates

- Eight-week covered period beginning with receipt of the loan proceeds
- February 15 – June 30, 2019 or January 1 – February 29, 2020
- February 15 – April 27, 2020
- February 15, 2020
- From now through June 30, 2020



FTE Forgiveness Calculation

Step 1: Find the average number of FTEs per month employed by the recipient during the period beginning on February 15, 2019 and ending June 30, 2019, or the period beginning January 1, 2020 and ending February 29, 2020. Using whichever gives you the smallest base FTE. Let's refer to this as the **“Base FTE”**

Step 2: Find the average number of FTEs per month employed by the recipient during the covered period. “Covered Period” being the eight-week period after the loan has distributed to the recipient. Let's refer to this FTE as the **“Covered Period FTE”**

Step 3: Divide the **Covered Period FTE** by the **Base FTE** to come up with ratio to apply against TAFA.



Determining Base FTEs

- Average FTEs for period beginning February 15, 2019 and ending June 30, 2019
- Nine pay periods over 4.5 months

	<u>Employee</u>	<u>Hours per Week</u>
1	Henderson	10
2	Brock	20
3	Hamilton	20
4	Cobb	30
5	Raines	40
6	Coleman	40
7	Latham	40
8	Collins	40
9	Carey	40
10	Wagner	40
	Total Hours	330
	Basis for FTE	30
	Number of FTEs	8



Determining Base FTEs (Cont'd)

- Average FTEs for period beginning January 1, 2020 and ending February 29, 2020
- Four pay periods over two months

	<u>Employee</u>	<u>Hours per Week</u>
1	Henderson	10
2	Brock	10
3	Hamilton	10
4	Cobb	10
5	Raines	40
6	Coleman	40
7	Latham	40
8	Collins	40
9	Carey	40
10	Wagner	40
	Total Hours	280
	Basis for FTE	30
	Number of FTEs	7



Determining Base FTEs (Cont'd)

- Determine which period to use:

	<u>Period</u>	<u>FTE</u>
1	February 15, 2019 – June 30, 2019	8
2	January 1, 2020 – February 29, 2020	7

- Use period two as your FTEs as this is the lessor of the two



Scenario One

- There were no changes to the number employees

<u>Base FTE</u>	<u>FTEs</u>			
1/1/2020 – 2/29/2020	As of 2/15/2020	2/15/2020 – 4/27/2020	Covered Period FTEs	Amount Available for Forgiveness
7	7	7	7	100%



FTE Re-Measurement

- **2/15/2020 through 4/27/2020: If a business reduces employees during this time, but is restored by June 30, 2020, the full amount of available forgiveness is restored.**



Scenario Two

- Employees decreased during 2/15/2020 – 4/27/2020, amount during 8 week period decreased, FTEs were not rehired by 6/30/2020.

<u>Base FTE</u>	<u>FTEs</u>			
1/1/2020 – 2/29/2020	As of 2/15/2020	2/15/2020 – 4/27/2020	Covered Period FTEs	Amount Available for Forgiveness
7	7	6	6	86%



Scenario Two – FTE Haircut

TAFAs	\$ 102,517.00	
Reduction for decrease in FTE	<u>\$ (14,352.00)</u>	TAFAs x 14%
TAFAs after FTE Haircut	<u>\$ 88,165.00</u>	



Scenario Three

- Employees decreased during 2/15/2020 – 4/27/2020, amount during eight-week period decreased, 1 FTE rehired by 6/30/2020

<u>Base FTE</u>	<u>FTEs</u>			
1/1/2020 – 2/29/2020	As of 2/15/2020	2/15/2020 – 4/27/2020	Covered Period FTEs	Amount Available for Forgiveness
7	7	6	6	100%



Compensation Reduction Haircut

- **Determine Compensation Paid Per Employee in Q1 For EE's < \$100K**
- **Adjust to an Eight-Week Equivalent Per Employee**
- **Determine % Change Per Employee**
 - **If < 25% - No Adjustment**
 - **If > 25% - Dollar for Dollar Adjustment to Reduce TAFA**



Compensation Reduction Haircut

Reduction in Forgiveness Based on Salary Reductions over 25% (Employees Earning Under \$100,000 Only)							
	1st Calendar Quarter 2020					* Rounded	
Employee	1st Qtr Box 5 Wages	Annualized Box 5 Wages	1st Qtr Box 5 Wages (8 weeks)	Covered 8-Week Period Box 5 Wages	Difference	% Difference*	Amount over 25%
Henderson	\$ 3,250.00	\$ 13,000.00	\$ 2,000.00	\$ 0.00	\$ (2,000.00)	-100%	
Brock	\$ 3,250.00	\$ 13,000.00	\$ 2,000.00	\$ 1,600.00	\$ (400.00)	-13%	-
Hamilton	\$ 4,875.00	\$ 19,500.00	\$ 3,000.00	\$ 1,920.00	\$ (1,080.00)	-31%	(330.00)
Cobb	\$ 5,850.00	\$ 23,400.00	\$ 3,600.00	\$ 1,920.00	\$ (1,680.00)	-42%	(780.00)
Raines	\$ 26,250.00	\$105,000.00	\$ 16,154.00	\$ 16,154.00	\$ 0.00	0%	-
Coleman	\$ 18,750.00	\$ 75,000.00	\$ 11,539.00	\$ 11,539.00	\$ 0.00	0%	-
Latham	\$ 15,000.00	\$ 60,000.00	\$ 9,230.77	\$ 6,615.00	\$ (2,616.00)	-28%	(308.00)
Collins	\$ 27,500.00	\$110,000.00	\$ 16,923.08	\$ 16,923.00	\$ 0.00	0%	-
Carey	\$ 27,500.00	\$110,000.00	\$ 16,923.08	\$ 16,923.00	\$ 0.00	0%	-
Wagner	\$ 27,500.00	\$110,000.00	\$ 16,923.08	\$ 16,923.00	\$ 0.00	0%	-
	\$ 159,725.00	\$ 638,900.00	\$ 98,292.31	\$ 90,517.00	\$ (7,775.31)		(1,418.00)



Final Allowable Forgivable Amount

TAFAs	\$ 102,517.00	
Reduction for decrease in FTE	<u>\$ (14,352.00)</u>	TAFAs x 14%
TAFAs after FTE Haircut	\$ 88,165.00	
Comp. Reduction Haircut	<u>\$ (1,418.00)</u>	
FAFA	<u>\$ 86,747.00</u>	



Loan Repayment Amount

Original Loan	\$	133,104.00
Less FAFA	\$	<u>86,747.00</u>
Loan Repayment	\$	<u>46,357.00</u>

- Apply For Loan Forgiveness With Lender
- Payable Within Two Years
 - 1% Interest



QUESTIONS

