



Updates Around Paycheck Protection Program Forgiveness

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Our Presenter

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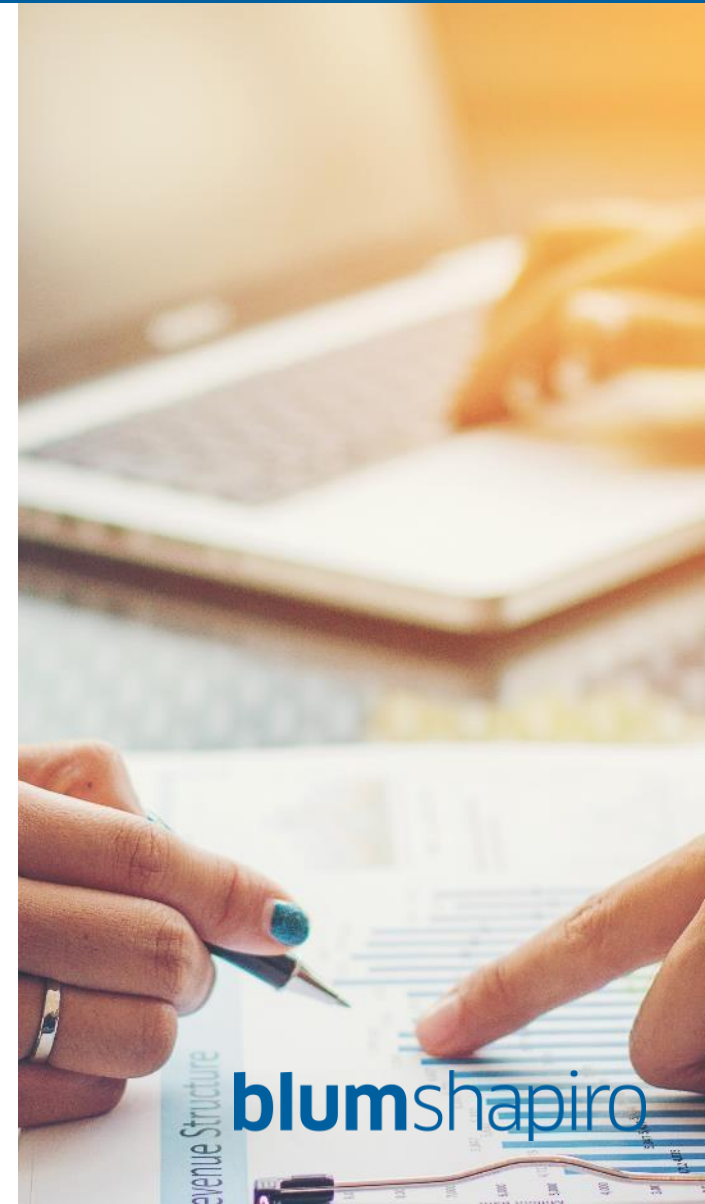
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Agenda

- » What We are Hearing
- » PPP Summary and Loan Forgiveness Applications
- » Accounting for Loan Forgiveness

What We're Hearing

- » Loan forgiveness application will be submitted by borrowers to banks (not the SBA) and the process may differ from bank to bank
- » Most banks have indicated that they will process the applications in waves
- » Once submitted, up to 60-day review period with the bank and then up to 90-day review with SBA before forgiveness determination
- » Potential audit process



Necessity of the Loan Certification

- » CARES Act Section 1102
 - An eligible recipient applying for a PPP loan “shall make a good faith certification . . . that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient.”



PPP Summary and Revised Loan Forgiveness Applications

PPP Summary

- » Payroll and nonpayroll costs paid or incurred during the covered period are eligible for forgiveness. Incurred but not paid must be paid in next regular billing cycle.
- » For employees who are not performing work but are still on the borrower's payroll, payroll costs are incurred based on the schedule established by the borrower (typically, each day that the employee would have performed the work).
- » Bonuses / hazard pay can be paid to employees, but not to owners, and not above \$100,000 on an annual basis per pay period during the covered period (with a maximum of \$46,154 for a 24-week covered period)
- » Wages paid to furloughed employees are eligible
- » 60% of the forgiveness amount must be used for payroll, no cliff

PPP Summary

- » The period to replace and restore FTE and salaries was extended. The June 30 date moves to the earlier December 31 and the date the forgiveness application is submitted.
- » Eight-week covered period remains an option for borrowers who received a PPP loan prior to June 5, by election. Borrowers may submit a forgiveness application prior to the end of their covered period. However, if a borrower applies for forgiveness before the end of its covered period and has reduced any employee's salary or wages in excess of 25%, the borrower must account for the salary or wage reduction for the full 8-week or 24-week covered period.
- » Changes in loan maturity from two years to five years for loans after June 5. For loans made before June 5 the borrower and lender can agree to extend the maturity to five years.
- » SBA to audit loans over \$2 million (based on original loan amount)

PPP Summary

- » Accelerated costs for employer contributions related to retirement benefits or healthcare premiums that are outside the covered period should not be included
- » The alternative covered period cannot be used for non-payroll costs
- » Interest on unsecured credit is not eligible for forgiveness because it is not secured by real or personal property
- » Interest on loan starts accruing on the loan disbursement date

PPP Loan Forgiveness Applications

- » Forgiveness applications are available on the SBA website: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>.
- » Covered period – choose 8-week or 24-week period
 - Covered period starts on the date of the loan disbursement
 - Alternative covered period available for biweekly or more frequent payroll – covered period would begin the first day of the first pay period following the loan disbursement date. Less impactful now that proceeds can be used past 8 weeks.

PPP Loan Forgiveness Applications

- » Form allows for full forgiveness even with FTE reductions if eligible costs are high enough to absorb the FTE reduction
- » Have 10 months from the end of the covered period to apply for forgiveness before loan payments begin
- » Do not have to include costs you are not seeking forgiveness for (for example, can choose to include only payroll costs if that achieves full forgiveness)

Forgiveness Application – Use of E-Z Form – Option 1

The Borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees at the time of the PPP loan application and did not include any employee salaries in the computation of average monthly payroll in the Borrower Application Form.

Forgiveness Application – Use of E-Z Form – Option 2

Annual salaries or hourly wages were not reduced by more than 25% during the Covered Period or the Alternative Payroll Covered Period relative to the period between January 1, 2020 and March 31, 2020.

AND

The Borrower did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period (ignore reductions that arose from an inability to rehire individuals who were employees on February 15, 2020 if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020. Also ignore reductions in an employee's hours that the Borrower offered to restore and the employee refused).

Forgiveness Application – Use of E-Z Form – Option 3

Annual salaries or hourly wages were not reduced by more than 25% during the Covered Period or the Alternative Payroll Covered Period relative to the period between January 1, 2020 and March 31, 2020.

AND

The Borrower was unable to operate during the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19. SBA guidance clarified that this includes state and local government shutdown orders, not just federal.

Forgiveness Application – Full Application – FTE Safe Harbors



» FTE Safe Harbors:

- No reduction in employees or average paid hours: If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period.
- FTE Reduction Safe Harbor 1: If you were unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.
- FTE Reduction Safe Harbor 2: Average FTEs were reduced in the period February 15, 2020 and April 26, 2020 as compared to the FTE in the pay period inclusive of February 15, 2020. FTEs were restored to the same level or higher as compared to the pay period inclusive of February 15, 2020 as of the earlier of December 31, 2020 and the date the application is submitted.

Forgiveness Application – Full Application – FTE Reductions



- » FTE Exceptions – do not penalize for reductions due to:
 - Voluntary resignations
 - Terminations for cause
 - Refusals to accept restoration of reduction in hours
 - Written requests for reduced work schedules
 - Written offers to rehire that are declined and borrower is unable to hire similarly qualified employees for unfilled positions (borrower must notify the state unemployment agency of the declined offer within 30 days)
 - Borrowers must maintain written records of each of the above

Forgiveness Application – Full Application – No FTE Safe Harbor

- » If unable to meet an FTE Safe Harbor – must compare the average FTEs during the covered period to one of the following lookback periods:
 - 2/15/19 - 6/30/19
 - 1/1/20 - 2/29/20
 - Seasonal employees

Forgiveness Application – FTE Calculation

» Average FTE Computation

- 1 FTE = 40 hours per week
- Each employee who worked 40 or more hours = 1 FTE, each part-time employee can be converted to an FTE by dividing their hours by 40, or:
- Simplified Method – each part-time employee can be counted as .5 regardless of hours worked under 40
- Average hours worked per week drives the FTE calculation for covered period



Forgiveness Application – Salary/Wage Reductions

- » Complete the Salary/Hour Wage Reduction column only for employees whose salaries or hourly wages were reduced by more than 25% during the Covered Period or the Alternative Payroll Covered Period as compared to the period of January 1, 2020 through March 31, 2020
- » Based on the average annual salary or hourly wage – NOT number of hours worked in the period (that is addressed in the FTE reduction)
- » Appears to be based on base pay (not overtime rates)

Forgiveness Application – Payroll Costs

- » Include Gross Pay per employee for each pay period paid or incurred in covered period
- » Subject to cap based on \$100,000 annualized salary
 - \$15,385 for 8-week covered period
 - \$46,154 for 24-week covered period
 - Assuming prorate for periods in between if apply early in 24-week period
- » Includes tips, severance, bonuses, commissions, paid leave except leave covered by FFCRA

Forgiveness Application – Payroll Costs



- » Employer state and local taxes, retirement contributions and employer healthcare costs are non-cash compensation and are in addition to gross pay (do not count toward the per employee cap)
- » Healthcare costs include:
 - Employer premiums (including for self-insured plans)
 - Medical, dental, vision
- » Retirement costs include employer contributions to defined-benefit or defined-contribution retirement plans
- » Noneligible costs:
 - Life insurance
 - Workers compensation
- » Disability insurance is a gray area

Forgiveness Application – Payroll Costs



» Schedule A

- Employees employed during the covered period whose principal place of residence is in the U.S.
- Table 1 – Employees who received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.
- Table 2 – Employees who received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Forgiveness Application – Nonpayroll Costs

- » Utilities, rent, interest on obligations secured by real or personal property
- » Interest for unsecured loans is not eligible
- » Costs are paid or incurred in the covered period and must be paid in the next regular billing cycle
- » Lease payments include principal and interest for capital or operating leases in effect prior to 2/15/20, including equipment, copiers, office space etc.

Accounting for Forgiveness

Accounting for Forgiveness

- » Forgivable loans are a form of government assistance
- » U.S. GAAP addresses accounting for government assistance by NFPs but not by for-profit entities
- » There are several accounting alternatives – with some restrictions on applicability:
 - Debt (ASC 470)
 - Government Grant (ASC 958-605)
 - Government Grant (IAS 20) (not available to NFPs)
 - Gain Contingency (ASC 450)

Additional PPP Loan Resources

- » For businesses who have been approved to receive, or have already received funds from the Paycheck Protection Program, the next question to begin addressing is, how will you calculate your loan forgiveness?
- » Download blum's free PPP Loan Forgiveness Toolkit

Contact Our Presenter

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