



Your PPP Loan: Updated Guidance and Maximizing Loan Forgiveness

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The vcfo Team



RUSSELL NAISBITT
Houston Practice Manager



CHRIS HYSINGER
Consulting CFO



JENNIFER LENNARZ
Consulting CFO

Your PPP Loan

- Payroll Protection Program Overview
- PPP and Economic Necessity
- What *can* you use the money for?
- What *can't* you use the money for?
- Example calculation
- What happens to the *unforgiven* amount?

Payroll Protection Program (PPP)

- Established under the CARES Act in March 2020
- Provides money to qualifying small businesses through commercial banks in the form of a loan
- Loans come with restrictions on use
- Intended to support the retention of employees and help business survive
- The loan may be partially or entirely forgiven if certain criteria are met

Economic Necessity of Loan

- Why is the loan necessary?
 - Adverse impact on business – revenue, operational disruption
 - Liquidity – cash reserves, access to capital
- Risk and perception
 - Size of loan
 - Visible adverse impact or liquidity issue

Payroll Protection Program (PPP)

- Loans *over* \$2 million will be audited by the SBA
- Loans *under* \$2 million are still subject to audit, but are assumed to meet the requirement that the loan be “necessary”
- In general, thoroughly document your rationale regarding the use of funds and your application for forgiveness

Payroll Protection Program (PPP)

- Additional guidance issued on May 22
 - More may be forthcoming
- This guidance may change in the coming days and weeks

Important Dates

- **Loan disbursement date**
- **February 15, 2020**
 - “In service date” for lease agreements, debt, mortgage, utilities
 - FTE Reduction Safe Harbor Date
 - Salary/Hourly Wage Reduction Safe Harbor Date
- **February 15, 2019 to June 30, 2019**
 - Reference period for FTE calculation, option 1
- **January 1, 2020 to February 29, 2020**
 - Reference period for FTE calculation, option 2

Important Dates

- **May 1, 2019 and September 15, 2019**
 - Alternative reference period for FTE calculation for seasonal employers
- **February 15, 2020 to April 26, 2020**
 - Comparative period for wage reduction calculation
- **January 1, 2020 to March 31, 2020**
 - Base period for wage reduction calculation
- **June 30, 2020**
 - Safe harbor date for both FTE's and wages

PPP Forgiveness Overview

- Forgiven amounts must be incurred or paid during the eight-week period following the receipt of funds
- Some limited flexibility is provided regarding this eight-week period
- Loan proceeds must be used for allowable expenses
- **No more than 25% of the loan forgiveness amount may be attributable to non-payroll costs.**
 - **Rent, mortgage interest, utilities**

DO Use PPP Proceeds For

- Payroll costs, including paid leave and employer paid health and retirement contributions, and state and local taxes
- Interest on mortgage obligations for buildings and real or personal property incurred before February 15, 2020
- Rent under lease agreements in force before February 15, 2020
- Utilities, for which service began before February 15, 2020
 - Gas, electricity, water, phone, internet, etc.

DO NOT Use PPP Proceeds For

- Independent contractors, or any compensation paid to an employee whose principal place of residence is outside of the United States
- Any compensation paid to an individual employee in excess of an annual salary of \$100,000, prorated as necessary
- Employer portion of Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020
- Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act
- Mortgage interest prepayments or principal payments

Additional Considerations

- Deferments of Payroll Tax Payments under the CARES Act are *not* available to employers with forgiven loans under the Paycheck Protection Program.
- An eligible employer that receives a PPP loan cannot receive the Employee Retention Credits under the CARES Act.
- Follow the SBA guidance *precisely* on use of funds to avoid significant penalties.
- Forgiven amount will not be considered cancellation of indebtedness income for federal income tax purposes, but expense may be non-deductible.
- EIDL advances will be deducted from the forgiven amount

Maximize Loan Forgiveness

- To maximize loan forgiveness, three hurdles must be met
 - Pay rates during the loan period must be at least 75% of payroll during test period
 - Average FTE's during the loan period must be at least that during the test period
 - At least 75% of the forgiveness amount must be used for approved payroll expenses
- Two safe harbors are available
 - If you restore FTE levels by June 30, 2020
 - If you restore average annual wages by June 30, 2020

Maximize Loan Forgiveness

- Based on the recently released loan forgiveness application
 - You have until June 30, 2020 to restore your FTE and pay rate levels to your February 15 levels, but only if the reductions occurred between February 15, 2020 and April 26, 2020.
 - The amount of forgiven non-payroll costs will not be greater than 25% of the total amount forgiven

Calculation Example

- Firm with 2 employees – both full time
 - One makes \$20/hour, the other makes \$65,000 per year
- Eligible non-payroll expenses total \$4,000 per month
- Average FTE during look back period is 2.0
- Received a \$25,000 PPP Loan
- Three scenarios
 - #1 – No changes to hours or pay are made during the covered period
 - #2 – The hourly employee is reduced to $\frac{1}{2}$ during the covered period
 - #3 – Both employees take a 33% pay cut

Scenario #1

No changes to pay rate or hours worked

During the covered period:

Total compensation is \$16,400

Average FTE is 2.0

Total non-payroll is \$8,000

To determine the Payroll Cost 75% requirement, divide Total Comp by 0.75

$$\$16,400 / 0.75 = \$21,867$$

Total Compensation	\$16,400
Total non-payroll expense	\$8,000
Total Salary/Wage Reduction Adjustment	\$0
FTE Reduction Quotient	1.0
Modified Total	\$24,400
PPP Loan Amount	\$25,000
Payroll Cost 75% requirement	\$21,867
Forgiven Amount	\$21,867

Scenario #2

Reduction in Employee Hours

During the covered period:

Total compensation is \$13,200

Average FTE is 1.5

Total non-payroll is \$8,000

To determine FTE Reduction Quotient, divide Avg FTE by Avg FTE during look back period

$$1.5 / 2.0 = 0.75$$

Total Compensation	\$13,200
Total non-payroll expense	\$8,000
Total Salary/Wage Reduction Adjustment	\$0
FTE Reduction Quotient	.75
Modified Total	\$15,900
PPP Loan Amount	\$25,000
Payroll Cost 75% requirement	\$17,600
Forgiven Amount	\$15,900

Scenario #3

Reduction in Employee Pay

Both employees have 33% pay cut

- During the covered period:
 - Hourly rate reduce to 13.4/hour
 - salary reduced to \$43,500 (annualized)
- Total compensation is \$10,988
- Average FTE is 2.0
- Total non-payroll is \$8,000

Total Compensation	\$10,988
Total non-payroll expense	\$8,000
Total Salary/Wage Reduction Adjustment	
FTE Reduction Quotient	
Modified Total	
PPP Loan Amount	
Payroll Cost 75% requirement	
Forgiven Amount	

Scenario #3 (Continued)

Calculate total Salary/Wage Reduction Adjustment

- Determine Percent Reduction
 - Hourly – $13.4/20 = 67\%$
 - Salary – $43,500 / 65,000 = 67\%$
- Calculate Wage Reduction
 - Hourly – $20 \times 0.75 = 13.4 = \1.60
 - Salary – $65,000 \times 0.75 = 43,500 = 5,200$
- Calculate the Wage Reduction Adjustment
 - Hourly – $1.60 \times 40 \text{ hours} \times 8 \text{ weeks} = \512
 - Salary – $5,200 \times 8 \text{ weeks} / 52 \text{ weeks} = \800
- Total Salary / Wage Reduction Adjustment
 - $\$512 + \$800 = \$1,312$

Total Compensation	\$10,988
Total non-payroll expense	\$8,000
Total Salary/Wage Reduction Adjustment	\$1,312
FTE Reduction Quotient	1.0
Modified Total	\$17,676
PPP Loan Amount	\$25,000
Payroll Cost 75% requirement	\$14,650
Forgiven Amount	\$14,650

Conversion to a Loan

- Any amount not forgiven will be converted to a loan
 - 24-month term from the date of disbursement
 - No payments due for first six months following disbursement
 - Interest rate will be 1.00%
- Even after conversion, proceeds must still be used for approved expenses only

Documents Required to be Submitted

- Payroll - documentation verifying cash compensation and non-cash benefit payments for the covered period
 - Third party payroll provider reports or bank statements
 - Tax forms that overlap with covered period
 - Payment receipts or account statements documenting contributions to employee benefit plans
- FTE's
 - Number of FTE's on payroll per month between 2/15/20 and 6/30/20
 - Average number of FTE's on payroll per month between 1/1/20 and 2/29/20 or alternate periods for seasonal employers

Documents Required to be Submitted

- Nonpayroll
 - Copy of utility invoices and receipts or cancelled check or account statement verifying payment
- Additional documentation is required to be retained but not submitted

vcfo Houston



ELLEN WOOD
CEO



MIKE WILFLEY
COO



RUSSELL NAISBITT
Houston Practice
Manager /
Consulting CFO



CHRISTOPHER HYSINGER
Consulting CFO



VIRA TREVINO-GARCIA
Recruiting Director



TERESA FOLTZ
Senior HR Consultant

Questions?

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Thank you!



AUSTIN (HQ) 512.345.9441
NORTH TEXAS 972.312.vcfo (8236)

DENVER 303.938.vcfo (8236)
HOUSTON 713.462.vcfo (8236)