

PPP Loan Next Steps:

Forgiveness Applications
and Clarifications

BIGTIME

W ILLUMINATION
W E A L T H

Your Speaker



Matt Rinkey

Founder & Chief Financial Life Officer
Illumination Wealth

Today's Agenda

- Review The PPP Loan Forgiveness Application
- Clarification on Covered Periods
- Clarity Around Payroll Costs & Non-Payroll Costs
- Rehire, Termination & Voluntary Reduction Exclusions
- Headcount & Wage Reduction Forgiveness & Safe Harbors
- Applying For Forgiveness & Key Documentation
- Live Q&A

The Legal Stuff

This webinar is provided for information purposes only and does not constitute professional advice and is not intended to form a client relationship.

As you are aware, things are changing quickly and there is no clear-cut authority or bright line rules. The slides are not unequivocal statements of the law, but instead represent our best interpretation of where things currently stand at the time of this webinar.

The slides do not address the other potential impacts of the numerous other local, state and federal orders that have been issued in response to the COVID-19 pandemic.

The Intent of The Paycheck Protection Program (PPP)

- To provide you with two months of forgivable payroll expense, assuming you keep your people employed during the required time.
- To provide you with forgivable rent, utilities, and interest during the time – assuming these expenses do not exceed 25% of your total forgiveness.



75%

of the money must be put toward payroll costs. The other portion can be used for mortgage interest, utilities and rent.

PPP Forgiveness and Uses Overview

How Much Can Be Forgiven? The 8 Week Expense Period

1. Payroll Costs
2. Payment of interest on mortgage obligations incurred prior to February 15th, 2020
3. Rent obligations for leases entered into prior to February 15th, 2020
4. Utilities (including payment for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020)
5. The amount that can be forgiven is reduced by the \$10,000 EIDL grant

What You Can Use The Funds From Feb 15th - June 30th

(No limitations after 6/30 under current law)

1. Payroll Costs
2. Payments of interest on any mortgage obligation (but not principal payments)
3. Rent
4. Utilities
5. Interest on any debt obligations that were incurred prior to February 15th, 2020

Expenses allowed, but do not reduce indebtedness.

- a. Interest on non mortgage debt obligations even if incurred prior to February 15th, 2020
- b. Interest payments on mortgage debts after
- c. February 14, 2020.
- d. Rent obligations entered into after February 15, 2020.

“Necessity” is Necessary

- Everyone should document their “necessity”
- The SBA has indicated that it will not question necessity or refer necessity issues to other agencies, The Cares Act statute says that the loan must be necessary to support the ongoing operation of the business and the Department of Justice and Whistle blowers will not be bound by the SBA Guidelines.
- Greater than \$2mln loan:
 - ◆ Continue to subject to SBA Review
 - ◆ If determined to not be “necessary” and repaid, no administration or penalties will be assessed on the Borrower
- Less than \$2mln loan - Good Faith Certification Made



The Application: PPP Loan Forgiveness Calculation Form

- This will come from completing Schedule A and the worksheet

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____

Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

☐ Weekly ☐ Biweekly (every other week) ☐ Twice a month ☐ Monthly ☐ Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here: ☐

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10): _____

Line 2. Business Mortgage Interest Payments: _____

Line 3. Business Rent or Lease Payments: _____

Line 4. Business Utility Payments: _____

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3): _____

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5: _____

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13): _____

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7): _____

Line 9. PPP Loan Amount: _____

Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75): _____

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10): _____

The Application: Schedule A Worksheet

- You will need a calculator to complete this and run various scenarios

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- 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.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

All employees less than \$100k during covered period and in 2019

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

Employees > \$100k

Attach additional tables if additional rows are needed.

The Application: PPP Schedule A

- Owner employees are separate from FTE count

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:
If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here ☐ and enter 0 on line 3. _____

PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2: _____

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2: _____

Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

Line 6. Total amount paid by Borrower for employer contributions for employee health insurance: _____

Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans: _____

Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation: _____

Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners:
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each. _____

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): _____

Full-Time Equivalency (FTE) Reduction Calculation

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, check here ☐, skip lines 11 and 12 and enter 1.0 on line 13.

Line 11. Average FTE during the Borrower's chosen reference period: _____

Line 12. Total Average FTE (add lines 2 and 5): _____

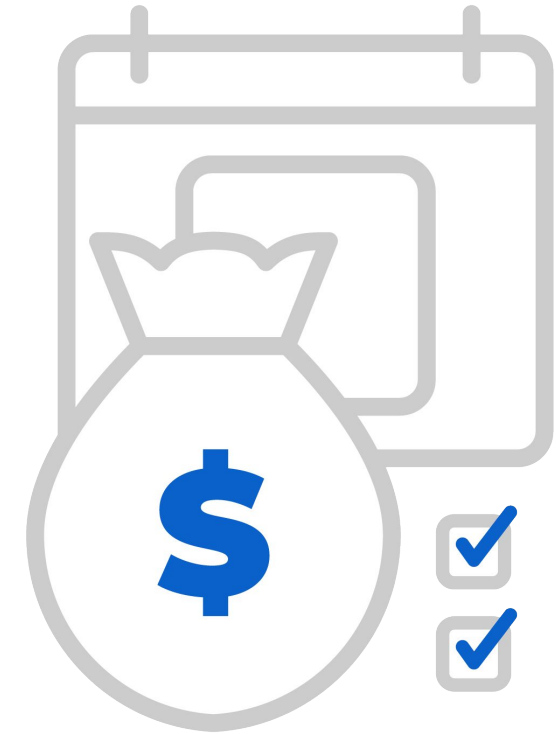
Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met: _____

The Covered Period and Allowable Costs

The Options You Have to Pay Allowable Expenses

Covered Period

- Day 1 Begins When the Loan was Disbursed for 56 Days
- Potentially Different Spending Periods
 - ◆ Payroll costs
 - ◆ Non-payroll costs
- An Alternative Payroll Covered Period for Payroll
- Open questions:
 - ◆ Will this be extended beyond 8 weeks?



Covered Period (CP) for Payroll

- Original Covered Period
 - Cash
 - Payroll costs are considered paid on the day that paychecks are distributed, or the Borrower originates an ACH credit transaction.
 - Incurred but not paid for days within 8 weeks
 - Counted so long as paid on or before next regular payroll date
 - Question: Is the first pay date then prorated?
- Payroll costs are incurred on the day the employee's pay is earned

Significant Implications → Paid & Incurred

- Costs paid during the CP or APCP are forgivable, even if incurred before those periods.
- And, costs incurred during and paid after the CP or APCP are forgivable provided that payment of the costs is made on or before the next regular payroll date or billing date.
- Costs that are both paid and incurred may only be counted once.

This means you can get more than 8 weeks of payroll “counted” when it comes to forgiveness

Alternative Payroll Covered Period (APCP)

- Period is 8 weeks from first day of payroll period following loan disbursement date
- For borrowers with a biweekly or more frequent payroll schedule
 - ◆ Example:
 - Received their PPP loan proceeds on Monday, April 20, and the first day of its first pay period following its PPP loan disbursement is Sunday, April 26
 - The first day of the alternative payroll covered period is Sunday, April 26, and the last day of the alternative payroll period is Saturday, June 20 (8 weeks or 56 days)

Payroll Cost - Owner Employees

- Owners compensation is capped at lower of:
 - ◆ 8 Weeks worth of 2019 compensation: includes wages, health insurance & retirement costs
- OR**
- ◆ \$15,385 cap (\$100,000 annualized wages)
- Owner's Can't Bonus Themselves to Use Up Loan

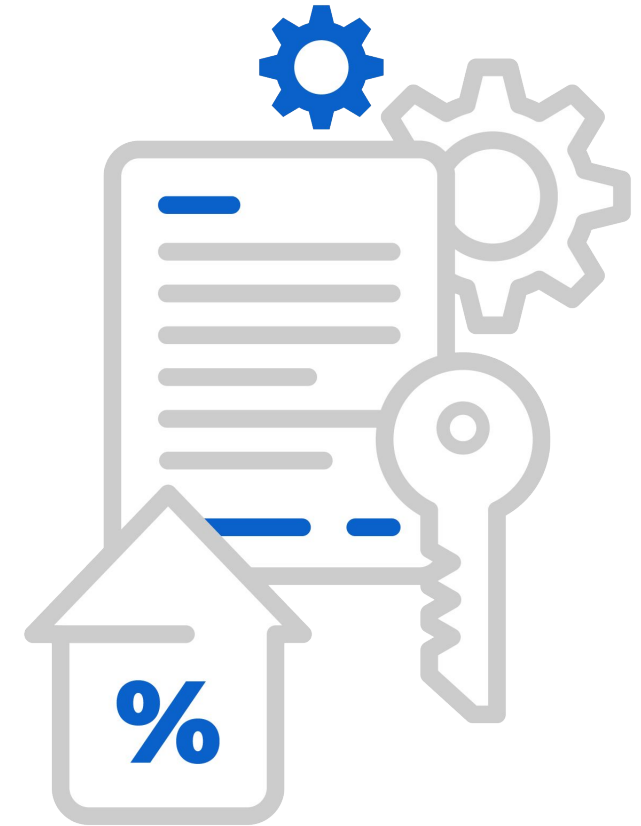


Payroll Costs

- Salaries, Wages, Commissions
- Incentive Pay & Bonuses
 - ◆ Bonuses are considered compensation for payroll costs.
 - ◆ This helps as an employer can bonus out employees up to total comp for the 8-week period of \$15,385 to maximize forgiveness (if reasonable)
- Vacation, Parental, Medical, Sick Leave
- Severance Pay
- Wages paid to furloughed employees count towards forgiveness
- Health insurance
 - ◆ We believe this means health, dental & vision (not other insurance)
- Retirement Costs
 - ◆ We are not clear if there will be any limitation to 8 weeks
- State & Local Taxes

Non-Payroll Costs in Place Before 2/15

- Utilities
 - ◆ Will there be more detailed definitions?
 - Transportation?
- Rent & Lease
 - ◆ Real or Personal Property
 - Copier Leases, Car Leases, Truck Leases
 - ◆ Will CAM and property taxes be included?
- Mortgage Debt Interest
 - ◆ Principal is not included and prepayment not possible
- Interest on Other Debt
 - ◆ PPP Can Be used to pay for it
 - Not included in forgiveness



Non-Payroll Costs Eligible For Forgiveness

- Multiple Time Frames To Look At These Expense
- Can Be Paid During the Covered period
 - This could include payments from before the covered period
 - Deferred Rent
- 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.
- Remains limited to no more than 25% of total forgiveness amount
- In practice:
 - ◆ Generally only 2 months of non-payroll costs will be eligible as anything additional would push beyond the 25% limit

Reductions in Forgiveness

Your loan forgiveness will be reduced proportionally if you decrease your full-time employee headcount

Your loan forgiveness will be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized in 2019

How Reductions in Forgiveness Work

- 75% of Spent Has To Go To Payroll Costs
- Your loan forgiveness will be reduced proportionally if you decrease your full-time employee headcount
- Your loan forgiveness will be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized in 2019

How to Avoid Reductions in Forgiveness

- Make sure your FTE headcount matches that of:
 - ◆ 2/15/2019 - 6/30/ 2019 OR 1/1/2020 - 2/29/2020
 - ◆ Whichever time frame is more favorable for you (Lower)
- Salaries and wages must be brought back up (max reduction allowable is 25% for any employee that made less than \$100,000 annualized in 2019)

- Re-Hiring:
 - ◆ You have until June 30, 2020 to restore your FTE and salary levels for any changes made between February 15, 2020 and April 26, 2020
 - ◆ Even if this is after your loan window
 - ◆ See New Safe Harbor

Full Time Equivalent Employee (FTEE) Calculation

- Two options are allowed for average FTEE
 - ◆ Detailed: For each employee, take the average number of hours per week divided by 40 and round to the near tenth = .8 (On interim rules it says 100th = .75)
- OR**
- ◆ Simplified: For each employee, assign a 1.0 to any employee working 40 hours or more per week and .5 to any employee working less than 40 hours per week
- *You have to pick one and use consistently*
- Based on Covered Period or Alternative Payroll Covered Period & relevant baseline / historical comparisons
- It's very important to do the math as it can impact forgiveness
 - ◆ For example, ALL 10 people working 38 hours/week can be equivalent to 5 FTE simplified vs. 9.5 on FTE detailed calculation

FTEE Headcount Reduction Relief

- Employer will not be penalized in FTEE count for employees who:
 - ◆ Declined an offer to return to work
 - Must notify state unemployment insurance office within 30 days
 - ◆ Terminated for cause
 - ◆ Voluntarily resigned
 - ◆ Voluntarily requested & received reduction of hours
 - Must have proper written documentation for ALL
- Based on either covered period or alternative period
- No double dipping

“Borrowers should not be penalized for changes in employee headcount that are the result of employee actions and requests.”

FTEE Reduction - Safe Harbor to Avoid Reduction

→ Exempt from reduction in loan forgiveness based on FTEE if both of the following conditions are met:

- ◆ The Borrower reduced its FTEE levels in the period beginning 2/15/20 and ending 4/26/20

AND

- ◆ The Borrower then restored its FTEE levels by no later than 6/30/20 to its FTEE levels in the borrower's pay period that included 2/15/20

Questions:

- How is the 6/30/20 actually be measured?
 - ◆ We believe it's the payroll period that included 6/30.
- Will the 6/30/2020 cure date be extended - lots of talk around this?

Wage Reduction Penalty

- Determining if 25% or greater wage reduction occurs per employee
- Two calculations:
 - ◆ Salaried employees are based on average salary
 - ◆ Hourly employees are evaluated based on average hourly wage
 - Based on either traditional covered period or alternative payroll covered period compared to Q1 2020
- Comparison between the average of 8-week covered period vs. average of 13-week period of Q1 2020 (reference period)

To ensure that borrowers are not doubly penalized, the salary/wage reduction applies only to the portion of the decline in employee salary and wages that is *not* attributable to the FTE reduction.

Wage Reduction Safe Harbor to Avoid Reductions

- SBA clarified the borrow is exempt from a wage reduction penalty if ONE of the following conditions are met:
 - ◆ Average annual salary or hourly between 2/15/20 - 4/26/20 is equal to OR greater than the annual salary or hourly wage on 2/15/20

OR

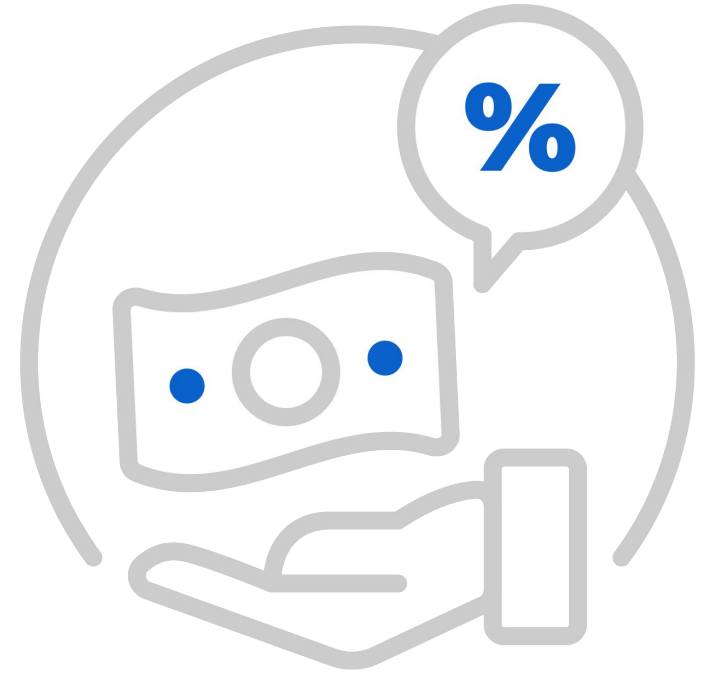
- ◆ Average annual salary or hourly wage on 6/30/20 is equal to or greater than the annual salary or hourly wage on 2/15/20
- This is all done on an employee by employee basis

Applying For Forgiveness

Getting Organized So You Can Apply Efficiently

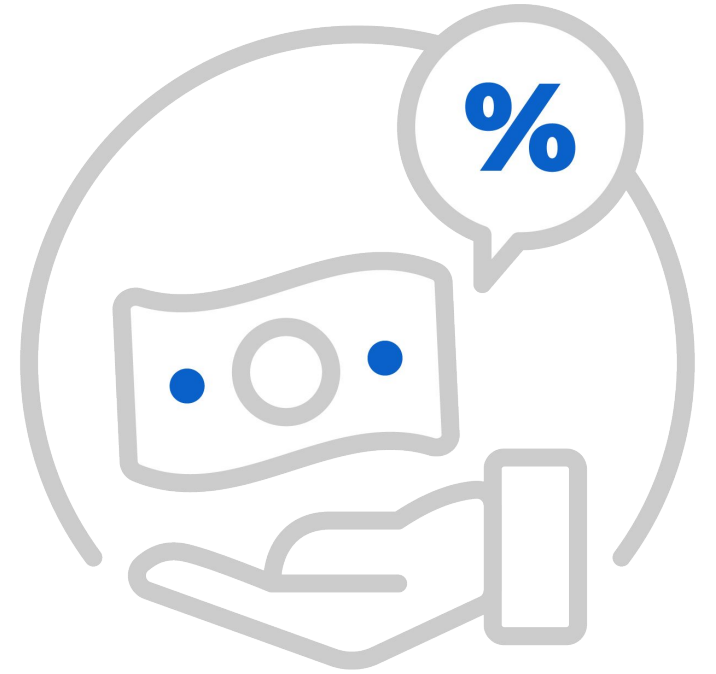
Your Forgiveness Amount

- NOT based on spending 75% of loan amount on payroll costs
- Based on amount spent on payroll costs divided by 75%, not to exceed the original loan amount
- Accrued interest on PPP loan not addressed
 - ◆ Question: Will accrued interest on the forgiven portion also be forgiven?
- EIDL advanced grant will be reduced from the amount forgiven



Applying for Forgiveness

- Do calculations now to strategize
- Engage a qualified advisor to help navigate
- Wait for final rules before submitting
- Apply to your lender - be prepared for overwhelmed lenders
- Lender has 60 days to review / issue decision
- SBA has 90 days To remit amount to lender
- Must retain your PPP records for 6 years



Keys To Successful Forgiveness

- Complete package of documents
- A paper trail with supporting calculations
- Documents organized and easy to follow
- Optional documents prepared and ready in case of request
- Application
 - ◆ Completed application with optional schedules
 - ◆ Filled out correctly and thoroughly
- Lack of documents or incorrectly prepared application could slow down the process

Required Payroll Documents

- See page 10 of the application
- Required documents to be submitted to the lender
 - ◆ Payroll documents
 - ◆ FTE back up
 - ◆ Non-payroll
- Other documents that must be kept by business As well as:

“All records relating to the Borrower’s PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower’s certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower’s loan forgiveness application and documentation demonstrating the Borrower’s material compliance with PPP requirements.”

Required Payroll Documents

Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period consisting of each of the following:

- Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees
- Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
 - ◆ Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
 - ◆ State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount (PPP Schedule A, lines (6) and (7))

Required FTEE Documents

Documentation showing (at the election of the Borrower):

- The average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019;
- The average number of FTE employees on payroll per month employed by the Borrower between January 1, 2020 and February 29, 2020; or
- In the case of a seasonal employer, the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve- week period between May 1, 2019 and September 15, 2019.

Required Non-Payroll Documents

- **Business mortgage interest payments:** Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
- **Business rent or lease payments:** Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
- **Business utility payments:** Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.

Documents You Must Maintain But Not Submit

PPP Schedule A Worksheet or its equivalent and the following:

- Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
- Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.
- Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule.
- Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor”



ANY QUESTIONS?

Thank you!

bigtime.net

✉ sales@bigtime.net

☎ +1 (312) 346-4646

Matt Rinkey

Illumination Wealth

✉ matt@illuminationwealth.com

☎ www.illuminationwealth.com



BIGTIME