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Your PPP Loan Further Updates and Expectations

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Part 4

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Agenda

- PPP Flexibility Act of 2020
- Expectations
- PPP Loan Forgiveness Application
- Example calculations
- Documentation
- Additional considerations
- Important dates
- Questions

PPP Flexibility Act of 2020

- Signed into law on June 5, 2020
- US Treasury issued revisions to First Interim Rule on June 10, 2020
- Changed period covered by the Payroll Protection Program to the period beginning on February 15, 2020 and ending on December 31, 2020
- Changed Forgiveness Covered Period from 8-weeks to 24-weeks
- Borrowers with loans approved prior to June 5, 2020 may elect to have the forgiveness covered period be 8-weeks

PPP Flexibility Act of 2020

- Borrower must use at least 60% of the forgiveness amount for payroll costs and not more than 40% for nonpayroll costs for full forgiveness
- If less than 60% of the total loan amount is used for payroll cost the forgiveness amount will be ratably reduced
- Two new safe harbors from reduction in loan forgiveness
 - Unable to rehire previous employees or similarly qualified individuals
 - Unable to return to pre-February 2020 level of business activity as a direct result of COVID-19 related restrictions

PPP Flexibility Act of 2020

- For loans made on or after June 5, 2020 the maturity is now 5 years
- For loans made before June 5, 2020 the maturity is still two years.
 - However, borrowers and lenders may mutually agree to extend maturity
- Borrowers have 10 months from the end of the loan forgiveness covered period to submit the loan forgiveness application
- No principle or interest payments need to be made until SBA remits forgiveness amount to lender
- SBA will be issuing a modified loan forgiveness application as well as revisions to its interim final rules

Other Updates

- Initial Loan Forgiveness Application as well as instructions were issued on May 15, 2020 – SBA has stated they will be modifying the application
- New Interim final rule issued on May 22, 2020 regarding the Loan Forgiveness Application
- Forgiven amount is reduced if salaries/wages are reduced more than 75%
- Forgiven amount is reduced if headcount is reduced

Review - Eligible Payroll Costs

- Flexibility to include payroll costs paid and/or payroll costs incurred during the covered period or alternate covered period
- Cash compensation – gross salary, gross wages, gross tips, gross commissions, paid leave and separation incurred during the covered period
- Noncash compensation
 - Contributions for employee health insurance
 - Contributions to employee retirement plans
 - State and local taxes on employee compensation
- Cash compensation of employees cannot exceed an annual salary of \$100,000 on a prorated basis

Review - Eligible Non-Payroll Costs

- Must be paid and/or incurred during the covered period
- If only incurred, then must be paid on or before the next regular billing date
- Business mortgage interest
 - Not including any prepayment
 - Not including payment of principal
- Business rent or lease payments for real or personal property
- Business utility payments
 - Electricity, gas, water, transportation, telephone, and internet access
- Cannot exceed 40% of the forgiveness amount

PPP Loan Forgiveness Application (subject to modification)

- Multiple Components
 - Instructions
 - PPP Loan Forgiveness Calculation Form
 - PPP Schedule A
 - PPP Schedule A worksheet
 - Table 1
 - Table 2
 - FTE Reduction Safe Harbor
 - Borrower Demographic Information Form (optional)
 - Certification

Calculation Example

- PPP loan of \$150,000
- \$73,200 in payroll cost over forgivable covered period
- \$56,800 in nonpayroll costs
- Payroll cost requirement is calculated by dividing total compensation by 0.60

Total Compensation	\$73,200
Total non-payroll expense	\$56,800
Total Salary/Wage Reduction Adjustment	\$0
FTE Reduction Quotient	1.0
Modified Total	\$130,000
PPP Loan Amount	\$130,000
Payroll Cost 60% requirement	\$122,000
Forgiven Amount	\$122,000

Effect of FTE Reduction

- During the covered period total compensation is \$51,600
- Non-payroll expenses are \$56,800
- There is no salary/wage adjustment
- To determine total FTE reduction quotient divide covered period FTE's by reference period FTE's
 - $2.2 / 3.4 = 0.65$

Total Compensation	\$51,600
Total non-payroll expense	\$56,800
Total Salary/Wage Reduction Adjustment	\$0
FTE Reduction Quotient	.65
Modified Total	\$67,860
PPP Loan Amount	\$130,000
Payroll Cost 60% requirement	\$86,000
Forgiven Amount	\$67,860

Effect of Salary/Wage Reduction

- All employees take 30% salary/wage reduction
- Hours worked remain the same thus FTE's remain the same
- The wage reduction adjustment is the difference between at 25% reduction and the actual reduction

Total Compensation	\$51,240
Total non-payroll expense	\$56,800
Total Salary/Wage Reduction Adjustment	\$3,660
FTE Reduction Quotient	1.0
Modified Total	\$104,380
PPP Loan Amount	\$130,000
Payroll Cost 60% requirement	\$85,400
Forgiven Amount	\$85,400

Options for Counting FTE's

	Avg Hours Worked		Regular Method		Simplified Method	
	Reference Period	Covered Period	Reference Period	Covered Period	Reference Period	Covered Period
Employee #1	40	40	1.0	1.0	1.0	1.0
Employee #2	30	15	0.8	0.4	0.5	0.5
Employee #3	30	15	0.8	0.4	0.5	0.5
Employee #4	30	15	0.8	0.4	0.5	0.5
FTE's			3.4	2.2	2.5	2.5

Salary/Hourly Wage Reduction and FTE Safe Harbors

- Salary/hourly wage reduction safe harbor eliminates the adjustment associated with salary/hourly wage reductions
 - Wages must be restored by December 31, 2020 to levels in the pay period that included February 15, 2020
 - Reductions must have occurred between February 15, 2020 and April 26, 2020
- FTE reduction safe harbor eliminates reduction to FTE's by allowing an FTE reduction quotient of 1.0
 - FTE's must be restored by December 31, 2020 to levels in the pay period that included February 15, 2020
 - Reductions must have occurred between February 15, 2020 and April 26, 2020

Required Certification

- Used to pay costs that are eligible for forgiveness
- Note - this statement also says payroll costs were to retain employees
- All applicable reductions due to decrease in employees and wage reductions are included
- Submitted required documentation verifying costs
- Tax forms submitted are consistent with those submitted to IRS, state or workforce agency
- If funds are knowingly used for unauthorized purposes the government may pursue civil or criminal fraud charges

Documentation Required to be Submitted - Payroll

- 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 12/31/20
 - Average number of FTE's on payroll per month between 1/1/20 and 2/29/20 or alternate periods for seasonal employers

Documentation Required to be Submitted - Nonpayroll

- Documentation verifying existence of obligations/services *prior to February 15, 2020*
 - Lender amortization schedule and receipts or cancelled check or lender account statements
 - Copy of current lease agreements and receipts or cancelled check or lessor account statement verifying payment
 - Copy of utility invoices and receipts or cancelled check or account statement verifying payment
- Additional documentation is required to be retained but not submitted

Documentation Required to be Maintained but Not Submitted

- All records relating to the Borrower's PPP loan
- All documents relating to loan forgiveness application (specifically)
 - Salary/Hourly Wage Reduction Calculation of each individual employee
 - Employees with an annualized rate of more than \$100,000
 - FTE Reduction Safe Harbor
- Documentation regarding any employee job status/changes
- Must maintain all documents for six years after the loan is forgiven or repaid in full
- Permit authorized representatives of SBA to access all files upon request

Additional Considerations

- Document **necessity** if you have not already
- Continued communication with your lender about documents required for loan forgiveness
- Monitor SBA and US Treasury Publications daily for interim rulings and additional guidance
- Work with your payroll provider – see what PPP reports they have
- Forgiven amount will not be considered cancellation of indebtedness for federal income tax purposes, but expenses paid with amounts forgiven are not eligible for tax deductions
- **Prioritize PPP loan forgiveness forecasting, documentation and reconciliation with your finance, accounting, and HR staff**
- **Be prepared for changes**

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
- May 1, 2019 and September 15, 2019 – alternative reference period for FTE calculation for seasonal employers

Important Dates

- February 15, 2020 to April 26, 2020 – Safe harbor period for FTE and wage reductions
- January 1, 2020 to March 31, 2020 – base period for wage reduction calculation
- December 31, 2020 – safe harbor date for both FTE's and wages

Questions?

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Thank you!



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