

Understanding the SBA's PPP Forgiveness Application Process

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Discussion Topics for Today

- Possible Legislative & Administrative Changes
- Things we still don't know
- PPP Loan Forgiveness Calculation Overview
- Expenses Eligible for Forgiveness – Step 1
- Calculating Salary Reduction – Step 2
- Calculating FTEs – Step 3
- Loan Forgiveness Amount – Step 4
- Documentation Needed
- Representations and Certifications



Legislative & Administrative Update

- **Paycheck Protection Program Flexibility Act**
 - Allow forgiveness beyond the 8 week period: extending the 8-week period to 24 weeks
 - Extension of the covered period: June 30 to December 31
 - Eliminates the 75/25 rule on use of loan proceeds
 - Extend the rehiring deadline to offset the effect of enhanced Unemployment Insurance: June 30 to December 31
 - Eliminate restrictions that limit loan terms to 2 years: minimum maturity on PPP loans of 5 years
 - Ensure full access to payroll tax deferment for businesses that take PPP loans
- Other potential future legislation/regulatory fixes?
 - Clarify that PPP loans cannot be calculated on a compound basis, saving borrowers money over the long-term
 - Alleviate burdens to borrowers deemed ineligible due to prior criminal history
 - Clarify the coordination between the Employee Retention Tax Credit and the PPP loans to ensure borrowers can take advantage of both types of assistance; this appears to provide that to the extent a borrowers PPP loan is not forgiven, the borrower can claim ERT credits
 - Ensure the principal and interest loan assistance is not treated as taxable income to small business borrowers.

Things we don't know

- Will there be a limit to expenses paid but not incurred prior to covered period (e.g. 3 months of back rent)?
- Limit to expense paid but not incurred (yearend profit sharing contribution?)
- Utilities expense – Gasoline, briefly mentioned as a transportation costs, towing, hauling exp.? Anything else?
- Employing relatives? Limitations to their pay similar to owners? Acceptable as an FTE replacement?
- Can we pay bonuses for this period?
- Can we pay PTO/Vacation accruals?
- Is floor plan or other debt interest a “covered” expense?
- Can we just spend unused amounts for additional employee pay
- Do DMS maintenance payments count as utilities?
- Do copier and other equipment leases count as rent?
- Do service loaners count as rent?
- Any limits on Self Rental real estate? What about real estate taxes paid as part of lease?



Forgiveness Calculation Flowchart

Step 1

Eligible Expenses

During 8 week covered period

- Payroll Expenses
- Interest Expense
 - Utilities
 - Rent



Step 2

Employee Salary Reduction in excess of 25%
compared to the Q1 2020



Step 3

Reduction in Full-Time Equivalents compared
to prior periods



Step 4

Forgiveness is the Lesser of:

- 1.) Expenses in Step 1, Less Salary Reduction, Less Quotient for the reduction in Full-Time Equivalents
- 2.) PPP Loan Amount
- 3.) Payroll Expenses in Line 1 divided by 0.75

Eligible Expenses – Payroll Costs – Step 1

- ***Cash Compensation Includes:***
 - Salary, wage, commission or similar compensation, Payment of Cash Tip or Equivalent, Payment for vacation, parental, family, medical or sick leave, Allowance for dismissal or separation (W-2 Wages)
- ***Other Payroll Expenses:***
 - Employer portion of health insurance, Employer portion of retirement benefits and Employer portion of state and local taxes on employee compensation
- ***Other Criteria:***
 - Salaries and Wages Capped at \$15,385 for all employees during the 8-week covered period
 - Owner-Employees, Partners or Self-Employed lower of \$15,385 or 2019 8-week compensation average, health ins. costs, retirement benefits and SALT on employee compensation are not considered for this calculation.
 - Wages paid to employee whose principal place of residence is in the US
 - Wages must not be eligible for a credit under the Qualified Sick Pay or Emergency Family Leave under the Families First Coronavirus Response Act

Eligible Expenses – Payroll Costs – Step 1

- ***Expenses both Paid and Incurred during the 8-week covered Period are eligible***
 - Wages Paid but not incurred are still eligible (incurred prior to covered period)
 - Wages Incurred but not paid are still eligible as long as they are paid by the next regular pay date after the end of the covered period (paid after covered period)
 - 8-week covered period starts when you receive the funds (56 days)
 - Alternative payroll covered period can be elected
 - ◇ Starts the beginning of the very next pay period
 - ◇ Must have a bi-weekly or weekly payroll, option not allowed for semi-monthly or monthly payrolls
 - ◇ Only changes covered period for payroll, **covered period for all other expenses remain the same**, covered period starts the day the funds are received.
 - ◇ Does not change the length of the covered period (56 days)

April

Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

May

Su	Mo	Tu	We	Th	Fr	Sa
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

June

Su	Mo	Tu	We	Th	Fr	Sa
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

Assumptions:

Loan Disbursement Date - 4/15/2020

Weekly Payroll

Pay Period from Sunday - Saturday

Pay Date every Friday

Key Dates:

Covered Period Starts/Ends

First Pay Date

Alternative Pay Period Starts/Ends

Last day to pay wages incurred

Last day to pay alternative pay period wages



Eligible Nonpayroll Costs – Step 1

- Nonpayroll expenses paid but not incurred are still eligible (incurred prior to the covered period)
- Nonpayroll expense incurred but not paid are still eligible as long as there are paid on or before the next regular billing date.
- Covered mortgage obligations: payments of interest (not including any prepayment or payment of principal) on any business mortgage obligation on real or personal property incurred before February 15, 2020 (“business mortgage interest payments”)
- Covered rent obligations: business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020 (“business rent or lease payments”)
- Covered utility payments: business payments for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020 (“business utility payments”).

Salary Reduction Calculation – Step 2

- ***Salary/Hourly Wage Reduction:***
 - Only count employees paid during the 8-week covered period.
 - Anyone who received annualized wages in excess of \$100k in 2019 are not included in calculation.
 - Total employees pay for during the covered period should be at least 75% of each employee's prorated 1st quarter wages to avoid reduction.
- ***Salary Reduction Safe Harbor***
 - Any employee whose wages were reduced between 2/15 - 4/26/2020, you can restore that employee's wages to the 2/15/2020 level by 6/30/2020 to avoid inclusion in the salary reduction calc.



Salary or Hourly Wage Reduction - Step 2

Step 1

1.a	Average Annual Salary or Hourly wage For Covered Period	\$ 20,000
1.b	Average Annual Salary or Hourly wage between 1/1/2020 - 3/31/2020	\$ 30,000
	Divide 1.a by 1.b	66.67%

Step 2

2.a	Enter the annual salary or hourly wage as of 2/15/2020	\$ 30,000	
2.b	Enter the annual avg. salary or hourly wage between 2/15-4/26/2020	\$ 30,000	GO TO LINE 3.a
2.c	Enter the average annual wage or hourly wage as of 6/30/2020		N/A

Step 3

3.a	Multiply the amount entered in 1.b. by 75%	\$ 22,500	
3.b	Subtract the amount entered in 1. a from 3. a	\$ 2,500	
3.c	Avg. Number of Hours Worked per Week - 1/1/2020 - 3/31/2020		N/A
3.d	Hourly Employee - Multiply 3.b by 3.c, multiply result by 8	\$ -	
3. e	Salaried Employee - Multiply 3.b by 8, divide by 52	\$ 385	
	Total Employee Salary/Wage Reduction	\$ 385	



Full-Time Equivalent Employees (FTE) – Step 3

- ***Calculate FTE for several periods:***

- ◇ February 15 , 2019 – June 30, 2019 – Look back period
- ◇ January 1, 2020 – February 29, 2020 – Look back period
- ◇ February 15, 2020 – Safe Harbor (pay period inclusive)
- ◇ February 15, 2020 – April 26, 2020 – Safe Harbor
- ◇ 8-Week Covered Period or Alternative Payroll Covered Period
- ◇ January 1, 2020 – maybe – unknown possible 2nd Safe Harbor, need more guidance

- ***Safe Harbors to Avoid Reduction:***

- Avg. FTEs during the 8-week covered period is => Lower Avg. FTEs during the 2 look back periods; 2/15/2020 – 6/30/2019 or 1/1/20 – 2/29/2020
- If the pay period that includes 2/15/2020 is greater than the average from 2/15/2020 – 4/26/2020.
 - You can restore employee headcount by 6/30/2020 to 2/15/2020 FTE to avoid any reduction
- If FTEs at the end of your covered period are =/> FTEs on January 1, 2020 – possible 2nd safe harbor, need more guidance

Full-Time Equivalent Employees (FTE) – Step 3

- ***Two Methods of calculating FTEs:***

- ◇ Regular Method - anyone who works at least 40 hours a week is considered 1 FTE
 - Part-Time Employees are considered a FTE as a quotient of hours worked divided by 40
 - Employee A works 17 hours, $17/40 = .4$ FTE (round to the nearest tenth)
- ◇ Simplified Method - anyone who works at least 40 hours a week is considered 1 FTE
 - All Part-Time Employees are considered .5 FTE no matter how many hours they work

Full-Time Equivalent Employees (FTE) – Step 3

- ***Number of Exceptions where a reduction in FTEs will not count against the borrower:***
 - Any position for which the borrower makes a good-faith, written offer to rehire an employee during the covered period or Alternative Payroll Covered Period which was rejected by the employee
 - Any employees who during the covered Period or Alternative Covered Period, whose position was not filled by a new employee and were:
 - ◇ Fired for cause
 - ◇ Voluntarily resigned
 - ◇ Voluntarily requested and received a reduction of their hours



Full-Time Equivalent Employees (FTE) – Step 3

	Regular Method							
Week	1	2	3	4	5	6	7	8
Employee 1	40	45	43	42	40	35	40	48
Employee 2	35	25	42	35	28	24	20	44
Employee 3	40	40	40	40	40	40	40	40
Employee 4	40	40	40	40	40	40	40	40
Employee 5	W	W	W	W	W	W	W	W
Employee 6	42	45	44	46	40	42	F	F
Employee 7	20	20	20	20	20	20	20	20

Full-Time	5	5	6	5	5	4	5	6	AVG. FTE
Part-Time Hour	55	45	20	55	48	79	40	20	
Part-Time FTE	1.4	1.1	0.5	1.4	1.2	2.0	1.0	0.5	
Total FTE	6.4	6.1	6.5	6.4	6.2	6.0	6.0	6.5	6.3

	Simplified Method							
Week	1	2	3	4	5	6	7	8
Employee 1	40	45	43	42	40	35	40	48
Employee 2	35	25	42	35	28	24	20	44
Employee 3	40	40	40	40	40	40	40	40
Employee 4	40	40	40	40	40	40	40	40
Employee 5	W	W	W	W	W	W	W	W
Employee 6	42	45	44	46	40	42	F	F
Employee 7	20	20	20	20	20	20	20	20

Full-Time	5	5	6	5	5	4	5	6	AVG. FTE
Part-Time FTE	0.5	1.0	0.5	1.0	0.5	1.5	1.0	0.5	
Total FTE	5.5	6.0	6.5	6.0	5.5	5.5	6.0	6.5	5.9

W - Written offer to rehire
 F - Fired for cause
 V - Voluntarily resigned
 R - Voluntarily reduced hours

Full-Time Equivalent Employees (FTE) – Step 3

FTE Period Average	Regular Method	Simplified Method	Employees	Regular Calculation	Simplified Calculation
2/15/2019 - 6/30/2019	10.5	12	8 FT Employees - 40+ hours/week 2 PT Avg. 20 Hours/week 6 PT Avg. 10 Hours/week	8 X 1 FTE = 8 FTEs 2 x 20 = 40 hours - 1 FTE 6 X 10 = 60 hours - 1.5 FTEs	8 X 1 FTE = 8 FTEs 8 x .5 FTE = 4 FTEs
1/1/2020 - 2/29/2020	12	14	Employees 8 Full-Time Employees 4 Part Time Avg. 20 hours/week 8 Part Time Avg. 10 hours/week	Regular Calculation 8 X 1 FTE = 8 FTEs 4 x 20 = 40 hours - 2 FTE 8 X 10 = 80 hours - 2 FTEs	Simplified Calculation 8 X 1 FTE = 8 FTEs 12 x .5 FTE = 6 FTEs
Lesser of Above	10.5	12			
8 Week Covered Period	6.3	5.9			
FTE Reduction Quotient	40.00%	50.83%			

Forgiveness Calculation - Step 4

Step 1	<u>Payroll and Nonpayroll Costs</u>	
	Payroll	\$ 50,570
	Interest	\$ 52,000
	Rent	\$ 30,000
	Utilities	\$ 5,000
	Total Expenses Eligible For Forgiveness	\$ 137,570
Step 2	Salary and Wage Reduction	\$ (3,500)
	Eligible Expenses After Salary and Wage Reduction	\$ 134,070
Step 3	FTE Reduction Quotient	60%
	Eligible Expenses After Wage and FTE Reduction	\$ 80,442
Step 4	Lesser of:	
	Eligible Expenses After Wage and FTE Reduction	\$ 80,442
	PPP Loan Amount	\$ 150,000
	Payroll expenses in Line 1 divided by 0.75	\$ 67,427
	Forgiveness Amount	\$ 67,427
	Amount to be repaid over 2 years at 1%	\$ 82,573



Documentation Needed – Payroll Expenses

- ***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



Documentation Needed – Nonpayroll Expenses

- ***Documentation verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the Covered Period.***
 - 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.



Documentation Needed – FTE and Salary Reductions

- ***The following documentation is to be submitted regarding the FTE calculations:***
 - The average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019; or
 - The average number of FTE employees on payroll per month employed by the Borrower between January 1, 2020 and February 29, 2020
- ***Documents not required to be submitted but must be kept, SBA may request:***
 - Documentation supporting the reduction in the employees wages or salary or supporting the assertion there was no reduction in the employees wage or salary during the covered period or alternative payroll covered period.
 - ◇ Covered Period or Alternative payroll covered period
 - ◇ Salary Reduction Calculations
 - ◇ Q1 Payroll Records
 - ◇ 2019 Payroll Records



By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The authorized representative of the Borrower certifies to all of the below by **initialing** next to each one.

- _____ The dollar amount for which forgiveness is requested:
- was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes all applicable reductions due to decreases in the number of full-time equivalent employees and salary/hourly wage reductions;
 - does not include nonpayroll costs in excess of 25% of the amount requested; and
 - does not exceed eight weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
- _____ I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
- _____ The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.
- _____ I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
- _____ The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- _____ The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
- _____ I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.





Questions

David Wiggins

david.wiggins@claconnect.com

314-925-4316

Lee Ferguson

lee.ferguson@claconnect.com

314-925-4361

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