

Maximize Loan Forgiveness How to Track & Spend Your PPP Money

Presented by:



Today's Agenda

- Welcome
- DISCLAIMER
- PPP Program – Summary & Overview
- Accounting Recommendations
- Overview of Significant Assumptions
- Current FAQ
- Forgiveness Tool Walkthrough
- Recent Updates/Changes & Clarifications
- Tax Update
- Q&A – Advance Submissions & Q&A Chat



Introduction to your Presenters



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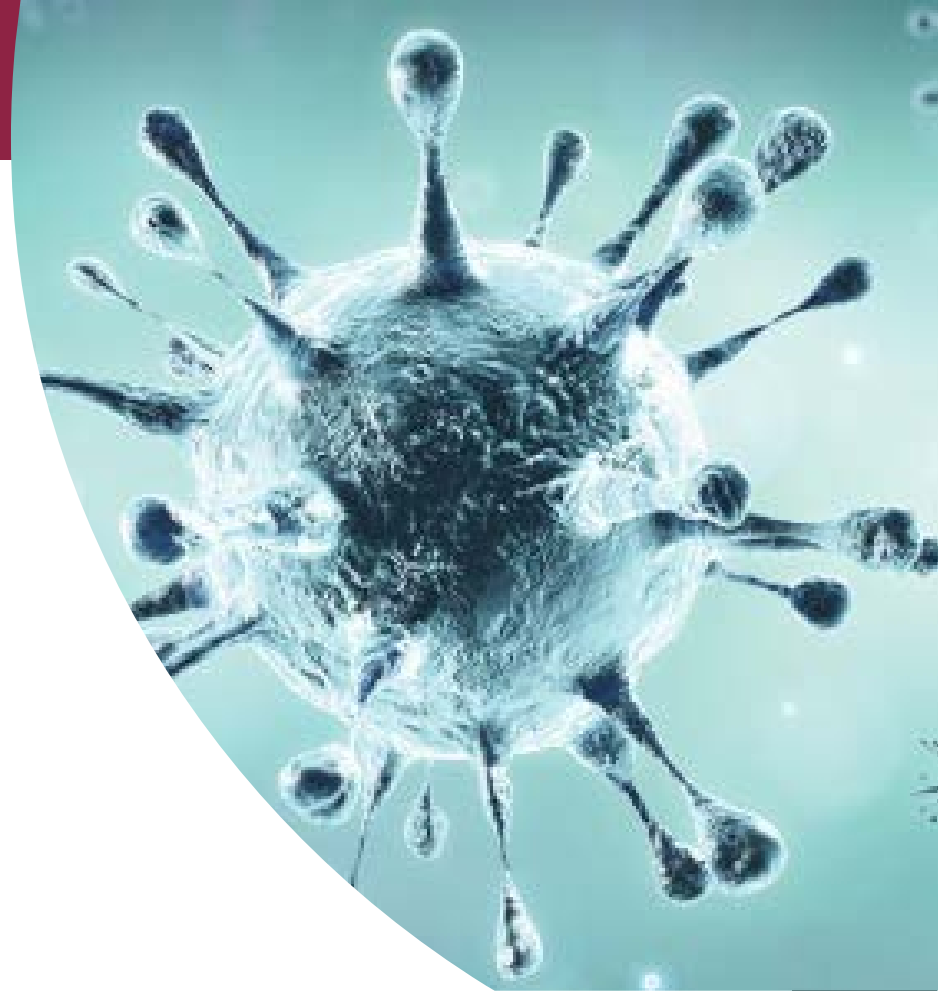
DISCLAIMER

- All information shared today is subject to change, significant assumptions of the PPP Forgiveness Tool are outlined and are as of 5/11/2020. Like much of the PPP, significant clarification and guidance is needed from the SBA and Banking Institutions, we have tried to identify judgements & interpretations as best as possible.

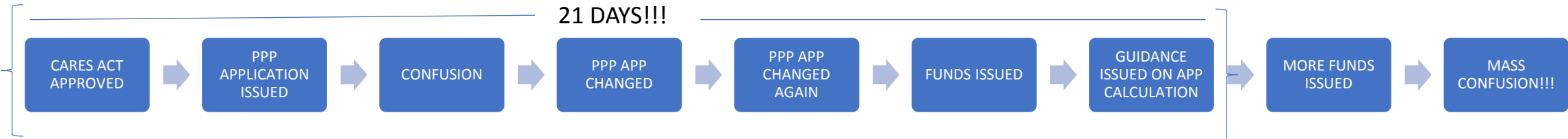
EVERYTHING MAY CHANGE!!!

Recent Headlines

- *“Now that over \$500 billion of these loans have been approved, we’re really focused on the forgiveness phase, and the forgiveness phase could be 10 times more complex than the initial program,”*
- *“One of the biggest stumbling blocks is a requirement that businesses allocate 75 percent of the loan money to cover payroll costs, with only 25 percent allowed for rent, utilities and other overhead. That has become more difficult as the economic crisis from the virus drags on and as some businesses face a prolonged period of depressed sales, even once they reopen.”*
- *“The embattled small business lending program is running into a new set of challenges, one that threatens to saddle borrowers with huge debt loads, as banks begin the tricky task of proving the loans they extended actually met the government’s intention”*
- *“Bankers and borrowers are just now beginning to realize how complicated the program may turn out to be.”*



PPP Timeline

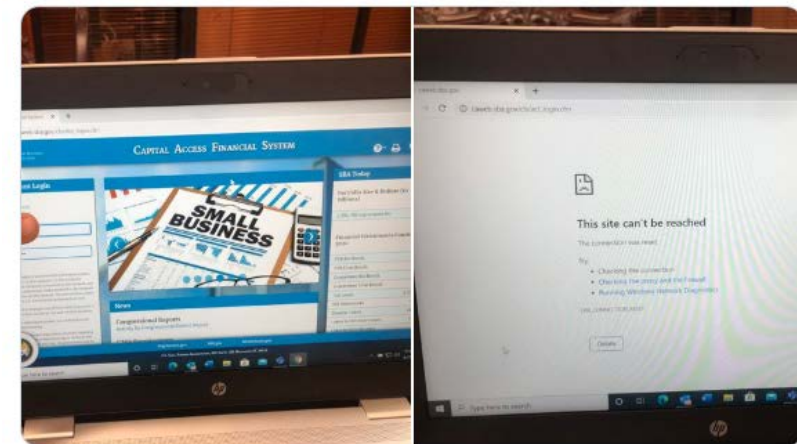


- On [Twitter](#), Brad Bolton; President & CEO of Community Spirit Bank, a lender in Red Bay, Ala., summarized his experience with two pictures and a caption. The S.B.A. *“had weeks to get this figured out, and here we are,”* Mr. Bolton said in an interview. *“It’s a disaster.”*
- Jill Castilla; CEO of a small community lender in Oklahoma, had 200 applications ready to submit on the first day the second round of funding was available. After six hours of trying, she was able to get only three processed. *“We serve truly tiny businesses, and many of them are in desperate circumstances,”* Ms. Castilla said. *“We know that each hour that goes by means there’s more money used up that won’t be available to be allocated for loans in our community.”*



Brad Bolton
@BradMBolton

Hope and Despair in two pictures!
[@SBAGov](#) [@USTreasury](#), community banks like [@CommSpiritBank](#) stood ready for our [#mainstreet](#) customers this morning and your failure to be ready is unacceptable!
 Fix the system or take everyone off of it to ensure [#equitableaccess](#) for all!



12:05 PM · Apr 27, 2020 from Alabama, USA · Twitter for iPhone



SBA Funding Update

- Phase 1 Funding – Closed 4/16/2020:
 - Average Loan Size \$206k – Approximately \$22.3 Billion Allocated to New England
- Phase 2 Funding – Through 5/8/2020 – 40% of Funding Still Available
 - Average Loan Size \$73k – Approximately \$9 Billion Allocated to New England

States and Territories for Second Round

State	Approved Loans	Approved Dollars
AK	4,750	\$368,180,450
AL	30,647	\$1,525,755,462
AR	17,401	\$663,435,916
AS	87	\$4,966,444
AZ	51,317	\$4,012,653,804
CA	376,803	\$35,802,231,257
CO	52,785	\$3,267,353,381
CT	34,629	\$2,725,531,573
DC	7,216	\$1,065,656,193
DE	5,667	\$395,884,847
FL	222,570	\$13,410,559,155
GA	78,008	\$5,117,317,474
GU	1,206	\$93,721,567
HI	10,414	\$487,023,393
IA	23,191	\$855,528,382
ID	14,051	\$763,899,867
IL	101,905	\$6,973,556,382
IN	35,624	\$2,173,039,568
KS	21,106	\$873,817,925
KY	20,394	\$1,159,401,378

State	Approved Loans	Approved Dollars
LA	37,186	\$2,271,563,428
MA	56,506	\$4,678,358,510
MD	41,378	\$3,556,949,724
ME	10,287	\$345,125,193
MI	66,790	\$5,822,149,865
MN	42,863	\$2,351,171,512
MO	36,808	\$1,806,239,740
MP	259	\$21,052,640
MS	19,614	\$708,706,077
MT	8,121	\$297,612,268
NC	66,677	\$4,696,588,382
ND	7,461	\$246,267,563
NE	15,647	\$513,129,973
NH	10,228	\$611,995,492
NJ	90,970	\$8,027,542,309
NM	11,565	\$818,989,209
NV	26,516	\$2,097,112,541
NY	190,052	\$18,789,434,045
OH	66,359	\$4,945,138,628
OK	23,856	\$929,949,637

State	Approved Loans	Approved Dollars
OR	35,751	\$3,217,222,676
PA	81,093	\$5,740,967,808
PR	23,787	\$1,053,976,529
RI	7,960	\$593,188,486
SC	33,061	\$2,019,303,964
SD	8,991	\$307,098,234
TN	46,905	\$2,613,261,852
TX	204,762	\$13,860,253,758
UT	24,733	\$1,771,010,637
VA	54,989	\$4,337,890,876
VI	913	\$61,469,771
VT	4,152	\$204,865,767
WA	58,149	\$5,394,106,824
WI	34,118	\$1,785,329,072
WV	7,897	\$485,847,921
WY	4,804	\$215,303,718
To be confirmed	188	\$7,899,524

Loan Size for Second Round

Loan Size	Approved Loans	Approved Dollars	% of Count	% of Amount
\$50K and Under	1,877,950	\$32,856,427,350	73.26%	20.70%
>\$50K - \$100K	331,866	\$23,470,699,187	12.95%	14.79%
>\$100K - \$150K	130,073	\$15,887,602,486	5.07%	10.01%
>\$150K - \$350K	147,602	\$32,631,473,177	5.76%	20.56%
>\$350K - \$1M	61,646	\$34,365,428,096	2.40%	21.65%
>\$1M - \$2M	14,130	\$19,530,467,793	0.55%	12.30%
>\$2M - \$5M	6,352	\$18,857,362,992	0.25%	11.88%
>\$5M	1,548	\$11,344,127,488	0.06%	7.15%

* Overall average loan size is: \$73K.

Known Challenges

- Application Question of Employees vs FTE Forgiveness Criteria
- FTE Averages vs. Jobs Restored
 - Definition of FTE
- 75/25 Initial Guidance vs Current Requirement
- \$600 Federal Unemployment Kicker
- Allowable vs Forgivable
- Loan Conversion & Future Use
- NEW – Eligibility Criteria
- “Interim Final Rule V 1,2,3,4...”
- Forgiveness Application Process – Guidance Needed
- Tax Implementations?



Accounting Recommendations

- Open a separate bank account for traceability
 - Issue payments directly from account for allowable expenses (Rent, Utilities, Retirement Funding, etc.)
 - You don't have to change payroll setup or other major automated transactions
 - Audit trail is key, if automated allowable payments are issued from operating accounts transfer **EXACT AMOUNTS** from PPP proceed account.
 - Retain all records for funds used and/or transferred (Invoice, Payroll Report, Lease Agreement, etc.)
 - If you have already mixed PPP proceeds with your operating account to avoid a liquidity challenge calculate the current net proceeds to transfer over to the separate account.
- If you have received EIDL funding as well, **DO NOT** use the two programs for the same purpose. EIDL can be used for general AP and other expenses excluded from PPP.



Accounting Recommendations

- For recording purposes:
 - Balance Sheet
 - Loan Proceeds – Debit to Cash PPP Account (New Account)
 - Credit to – Debt PPP (New Account – LT Liability)
 - P&L
 - Record expenses as normal
 - New Forgiveness Account (Below the line as Other Income)
 - Amortization Period – Subjective
 - Record Credit at end of forgiveness period



Allowable & Forgivable Assumptions

Expenses	Allowable	Forgivable	Restriction	Comment
Payroll costs: salaries, wages, commissions, or similar compensation; cash tips or equivalent	Yes	Yes	Cannot > \$100K on an annualized basis; principal place of residence is inside the US	Assume "similar compensation" includes bonus or hazard pay that is not excessive
Payroll costs: pmts for vacation, parental, family, medical or sick leave	Yes	Yes	Qualified sick or family leave wages for which a credit is allowed under FFCRA	
Payroll costs: allowance for dismissal or separation	Yes	Yes		
Payroll costs: pmts for group health care benefits, incl insur premiums	Yes	Yes	Employer portion only	
Payroll costs: pmts of any retirement benefits	Yes	Yes	Employer portion only to defined benefit or defined contribution plans	If profit sharing is normally done at YE, after profit is determined, then it does NOT seem reasonable to front load a contribution so payment is made during the 8 week period.
Payroll costs: state/local taxes assessed on compensation (i.e., unemployment)	Yes	Yes		
Payroll costs: for a sole proprietor or independent contractor, use Schedule C net profit	Yes	Yes	Cannot > \$100K on an annualized basis	Payroll cost during 8 weeks is limited to 8/52 of 2019 Schedule C net profit (maximum would be \$15,384 total / \$3846 biweekly / \$1923 weekly)
Other: pmts of interest on any mortgage obligation on real or personal property that existed at 2/15/20	Yes	Yes	No pmts of principal; no prepmts of interest	Examples: mortgage interest on a warehouse you bought for your business, or on vehicle you use in your business
Other: rent incl rent under a lease agreement in force at 2/15/20	Yes	Yes		Examples: rent for a warehouse you using in your business, or a leased vehicle that you use in your business
Other: utilities (electricity, gas, water, transportation, telephone or internet) for which service existed at 2/15/20	Yes	Yes		Assume telephone includes cell phones
Other: interest on any other debt obligations incurred before the 8 week period	Yes	No		
Other: refinancing of an EIDL	Yes	No		Proceeds from any advance up to 10K on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan (SBA 4/2/20 IFR)



Unallowable & Non Forgivable

Expenses	Allowable	Forgivable
Payments to independent contractors/1099s	No	No
Payables or supplies	No	No
Back pay reimbursement	No	No
Advance pay	No	No
Professional services (IT, accounting, legal, etc.)	No	No
Real estate taxes	No	No
Personal property taxes	No	No
Capital leases	No	No
Equipment	No	No
Distributions/Draws	No	No
Owner loans	No	No
Refinancing debt	No	No



Sample Tracking

PPP Loan Forgiveness Expense Tracking

Loan Amount 100,000
 Funding date 5/1/2020
 8 week ends 6/25/2020

Description	Vendor	Date	Amount	Gross Wages	Company Paid Only Health Insurance	Retirement	Building Rent	Other Rent	Mortgage Interest	Electric	Gas	Water	Telephone	Internet	Transportation
Payroll	Employees	5/1/2020	20,000.00	20,000.00											
Health Ins W\H	Employees	5/1/2020	(2,000.00)		(2,000.00)										
Rent	Landlord	5/1/2020	3,000.00				3,000.00								
Telephone	Phone Co	5/10/2020	650.00										650.00		
Electric	Electric Co	5/10/2020	900.00							900.00					
Payroll	Employees	5/8/2020	20,000.00	20,000.00											
Health Ins W\H	Employees	5/8/2020	(2,000.00)		(2,000.00)										
Internet	Company	5/15/2020	250.00											250.00	
Health Insur	Insur Co	5/15/2020			8,000.00										
Retirement match	Invest Co	5/20/2020	1,200.00			1,200.00									
Total			42,000.00	40,000.00	4,000.00	1,200.00	3,000.00	-	-	900.00	-	-	650.00	250.00	
Payroll costs			45,200.00												
Payroll costs percentage needs to be > 75%			95.24%												



Current FAQ

#	Questions	Comments
1	What happens if I don't spend all the funds?	Unspent funds are NOT forgivable. One option is to return/repay ASAP at the end of 8 weeks since there is no prepayment penalty. Another option is to keep the excess to use for future spending, but this would need to be repaid within 2 years. It is unclear if PPP funds can be used for other items beyond Allowable listed under Assumptions after the 8 week covered period.
2	When do I need to start spending the funds?	Clock starts when you receive your first disbursement from the bank. CARES Act says forgiveness will be an amount equal to the sum of the "costs incurred and payments made during the covered period." This phrasing implies 2 things must happen during the 8 weeks: cost incurred <u>AND</u> cash leaving the bank. (Note that SBA is supposed to provide more clarity.) Since PPP is focused on payroll, this is tricky to implement unless your loan disbursement happens to fall exactly on the same date that you start a payroll cycle. From a more reasonable, practical standpoint, you would expect to have 8 weeks of payroll expense plus 2 months of mortgage interest/rent and utilities <u>incurred and spent</u> during the 8 weeks. Keep the PPP funds in a separate bank account. Be prepared to have backup, such as payroll reports, rental agreements, utility bills and cancelled checks for all items.
3	Can I spend funds on bonuses?	We advise against anything excessive, plus you are capped at \$15,384 per person. Reasonable items such as hazardous pay would be acceptable.
4	What is an FTE?	This is not defined. We have assumed 30 hours consistent with SBA guidance on previous programs and the Affordable Care Act. A salaried employee would be considered a FTE. An hourly employee would be measured on the actual hours they work, not to exceed 30 hours.
5	How do I calculate average number of FTE?	Use the average number of FTE for each pay period falling within a month
6	How do I get the loan forgiven?	To maximize forgiveness, you must: <ol style="list-style-type: none"> 1. Spend at least 75% on payroll costs and not more than 25% on other costs 2. Maintain FTE headcount 3. Maintain salaries/wages 4. Submit an application for forgiveness to your bank with documentation verifying the number of FTE on payroll and payrates for relevant periods, including payroll tax filings reported to IRS, state unemployment filings, cancelled checks, bills or other documents verifying mortgage interest, rent & utility payments <p>The lender must issue a decision about forgiveness no later than 60 days after application was submitted.</p>
7	Can I spend more than 75% on payroll costs?	Yes



Current FAQ

#	Questions	Comments
8	What if I spend less than 75% on payroll costs?	<p>Interim Final Rule posted 4/2/20 says forgiveness will depend, in part, on total amount of Payroll Costs + Other (payments for mortgage interest, rent, utility) over the 8 weeks. But not more than 25% of the loan forgiveness amount may be attributable to non-payroll costs. Pending further clarity from SBA, we interpret this as follows:</p> <ol style="list-style-type: none"> 1. Add up all the spending, categorized as either Payroll or Other --> whatever was NOT spent is put aside and NOT forgiven (see #1) 2. For what was spent, forgiveness on Other is limited to 25% of the Total Spend. Whatever was spent on Payroll is NOT limited although forgiveness cannot exceed loan amount. 3. Apply reduction in FTE head test (see #9) 4. Apply reduction in salaries or wages test (see #10) 5. Apply exemption for re-hires test (see #11) <p>Note that SBA has not specified the order of calculation, but we are assuming based on presentation of text in CARES Act.</p>
9	What does Maintain FTE headcount mean?	<p>The goal of PPP was to maintain payroll. If during the 8 weeks, you have fewer FTE heads than you had previously, your forgiveness will be impacted.</p> <p>Average number of FTE per month employed by loan recipient during the 8 weeks will be compared to average number of FTE per month from (A) 2/15/19-6/30/19 OR (B) average number of FTE per month from 1/1/20-2/29/20, whichever is lower. Seasonal employers use (A).</p>
10	What does Maintain salaries/wages mean?	<p>The goal of PPP was to maintain payroll. If during the 8 weeks, you cut salaries or wages by more than 25%, your forgiveness will be impacted.</p> <p>Forgiveness will be reduced by the amount of any reduction in total salary or wages of any employee during the 8 weeks that is in excess of 25% of the total salary or wages of the employee during the most recent full quarter during which the employee was covered before the 8 weeks. Employees who earn > \$100K per year are excluded.</p> <p>In our file, we assumed Q1 2020 annualized pay, then compared to 8-week annualized pay. If you did not cut salaries or wages, then this analysis is not needed.</p>
11	What if I re-hire by 6/30/20?	<p>CARES Act says there is an exemption for re-hires: the amount of loan forgiveness shall be determined <u>without regard</u> to a reduction in FTE number or reduction in salary <u>if not later than 6/30/20</u>, the employer has eliminated the reduction in FTE number and reduction in salary. Until the SBA provides more clarity, we interpret this to mean that as long as you restore FTE number and salaries/wages by 6/30/20, then any previous negative impacts to forgiveness are erased.</p>
12	What if I offer to re-hire someone but he/she turns me down because they earn more on unemployment right now?	<p>This will not hurt your forgiveness. Employer must make a good faith, written offer of re-hire and document the employee's rejection. Employers and employees should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.</p>

S&G Forgiveness Tool Demo

Presented by: Angela Diette



Recent Updates on Eligibility

As of May 6, 2020

31. **Question:** Do businesses owned by large companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

Answer: In addition to reviewing applicable affiliation rules to determine eligibility, all borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application. Although the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary. Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that "[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business. For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification.

Lenders may rely on a borrower's certification regarding the necessity of the loan request. Any borrower that applied for a PPP loan prior to the issuance of this guidance and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith.¹¹

37. **Question:** Do businesses owned by private companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

Answer: See response to FAQ #31.¹⁴

43. **Question:** FAQ #31 reminded borrowers to review carefully the required certification on the Borrower Application Form that "[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." SBA guidance and regulations provide that any borrower who applied for a PPP loan prior to April 24, 2020 and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith. Is it possible for a borrower to obtain an extension of the May 7, 2020 repayment date?

Answer: SBA is extending the repayment date for this safe harbor to May 14, 2020. Borrowers do not need to apply for this extension. This extension will be promptly implemented through a revision to the SBA's interim final rule providing the safe harbor. SBA intends to provide additional guidance on how it will review the certification prior to May 14, 2020.

45. **Question:** Is an employer that repays its PPP loan by the safe harbor deadline (May 14, 2020) eligible for the Employee Retention Credit?

Answer: Yes. An employer that applied for a PPP loan, received payment, and repays the loan by the safe harbor deadline (May 14, 2020) will be treated as though the employer had not received a covered loan under the PPP for purposes of the Employee Retention Credit. Therefore, the employer will be eligible for the credit if the employer is otherwise an eligible employer for purposes of the credit.¹⁹

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

Updates On Employment Criterial & FTE Count

40. **Question:** Will a borrower's PPP loan forgiveness amount (pursuant to section 1106 of the CARES Act and SBA's implementing rules and guidance) be reduced if the borrower laid off an employee, offered to rehire the same employee, but the employee declined the offer?

Answer: No. As an exercise of the Administrator's and the Secretary's authority under Section 1106(d)(6) of the CARES Act to prescribe regulations granting de minimis exemptions from the Act's limits on loan forgiveness, SBA and Treasury intend to issue an interim final rule excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the CARES Act's loan forgiveness reduction calculation. The interim final rule will specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee's rejection of that offer must be documented by the borrower. Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.

- *We Recommend reaching out to an Employment Lawyer if this is a significant factor in your business.*



<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>



Tax Update

- Grassley, Wyden, along with Sen. John Cornyn, R-Texas, Marco Rubio, R-Fla., and Tom Carper, D-Del., introduced the Small Business Expense Protection Act, which would clarify the PPP so small businesses could still deduct the expenses they have paid with a forgiven PPP loan from their taxes. Under the bill, the receipt and forgiveness of coronavirus assistance through the PPP would not affect the deductibility of ordinary business expenses.

“When we developed and passed the Paycheck Protection Program, our intent was clearly to make sure small businesses had the liquidity and the help they needed to get through these difficult times,” Grassley said in a statement. “Unfortunately, Treasury and the IRS interpreted the law in a way that’s preventing businesses from deducting expenses associated with PPP loans. That’s just the opposite of what we intended and should be fixed. This bill will do just that.”

He and the other senators noted that the goal of the PPP was to maximize small businesses’ ability to maintain liquidity, retain their employees and recover from the pandemic as soon as possible.

“It is clear that Congress intended to allow a full deduction for PPP related expenses,” said the letter. “This important legislation helps ensure that small business taxpayers affected by the ongoing pandemic will receive the full intended benefits of the CARES Act.”

Q&A

THANK YOU!

Please reach out to us if you have any open questions. We will do our best to keep everyone up to date with information pertaining to your businesses.