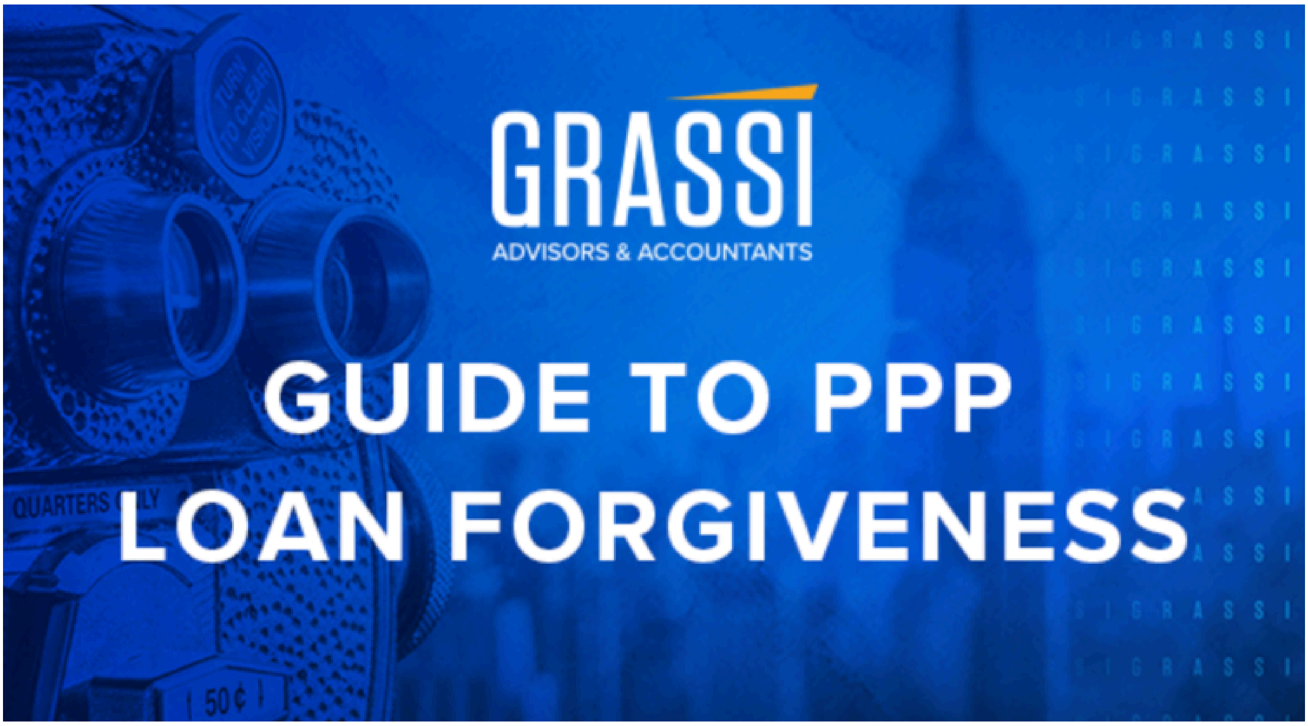
Guide to PPP Loan Forgiveness

GRASSI & CO (May 12, 2020)



Now that our questions have been answered on eligibility and application requirements for the Paycheck Protection Program (PPP), the focus will be on how to achieve maximum loan forgiveness. While we are expecting additional guidance to be released from the U.S. Small Business Administration this month, the following analysis of key issues reflects our current understanding of the considerations associated with PPP loan forgiveness, as of April 15, 2020.

Basic Requirements of Loan Forgiveness

Loan proceeds must be used for payroll costs, mortgage interest, rent and/or utilities.
Forgiven amount will be equal to the amount actually incurred and paid for these expenses.
Funds must be used during the eight weeks following disbursement of the loan.
Forgiveness will be scaled back if the business has a reduction in employees or a 25% or more reduction in total salaries or wages.

Exception: reductions in workforce, salaries or wages that occur from February 15, 2020 to April 26, 2020 will be disregarded for purposes of reducing the forgiveness amount, as long as the reductions are eliminated by June 30, 2020.

Key Dates to Remember

April 26, 2020 is the last date an employer can make reductions without impacting loan forgiveness calculations.
June 30, 2020 is the date by which the FTE count must be re-established to qualify for the maximum amount of loan forgiveness.
Average FTE period for purposes of loan forgiveness can be either: January and February 2020, or February 15 - June 30, 2019. (Hint: choose the lower base.)
The U.S. Small Business Administration has indicated that it will issue guidelines on loan forgiveness by April 26, 2020.

Issues Impacting Loan Forgiveness

Reduction in FTE Count – Not re-establishing FTE count by June 30, 2020 will result in a percentage reduction in loan forgiveness. e.g. If a company employed 100 FTEs during the average FTE period but employed only 90 during the eight-week period after the PPP loan was funded and did not restore to the 100 FTEs by June 30, 2020, there would be a 10% loss in forgiveness.
Reduction in Wages - An employer who cuts wages by more than 25% would receive a dollar-for-dollar reduction in loan forgiveness. e.g., If a company was paying salaries of $1,000,000 during 2019, and salaries were only $700,000 on an annualized basis during the eight-week period after the PPP loan was funded, the company would lose $50,000 in forgiveness ($1,000,000 * 75% = $750,000 less $700,000). This calculation is performed employee-by-employee. Employees earning more than $100,000 are excluded from this calculation.

Real-Life Scenario

Assume a company has applied for a $4,700,000 loan, and funding is pending.
Company has elected average FTE period of February 15, 2019 – June 30, 2019.
FTE count during average period was 200.
On April 15, 2020, the company is carrying 225 FTEs.
If management were to elect to reduce the workforce, this can occur by April 26, 2020 with no impact onloan forgiveness.
Assume PPP funding comes in on April 20, 2020. The company has eight weeks (until June 14, 2020) tospend the loan on qualified costs.
A minimum of 75% of those costs ($3,525,000) must be used on payroll and related costs, and 25%($1,175,000) can be used on non-payroll qualified costs.
To achieve maximum loan forgiveness, the company will need to return to at least 200 FTEs by June 30,2020.

Workforce Planning Issues

While June 30, 2020 is the target date to eliminate any reductions in salary, a company has eight weeksfrom date of funding to spend the loan proceeds. These timelines will not necessarily coincide with eachother, so workforce planning and payroll forecasting are essential.
Weekly cap for an employee included in the forgiveness bucket is $1,923 ($100,000 divided by 52 weeks, which equates to $15,384 for the eight-week period). While the employer can spend more on those individuals'salaries, the company cannot achieve forgiveness above that level.
Employers should consider cutting the salaries of the high-end earners down to $100,000 or less,especially if the employees are not working or cannot work. Anything above this level will not helptowards loan forgiveness.
When considering a reduction in higher-end salaries, it is important to make sure your company hasenough payroll costs to utilize during the eight-week period. One strategy to consider is makingadditional bonus payments to those who are lower earners during the eight-week period to maximizetheir forgiveness potential up to $100,000.
A company does not need to re-hire the same employees when restoring their FTE count. This may be agood opportunity for businesses to upgrade their talent pool, especially with a larger pool of candidatesnow available.

Strategies for Using Loan Proceeds

Companies may choose to increase benefits for employees during the eight-week period, such as increasing the employer share of healthcare costs, to maximize forgiveness.
Pay two months of office rent and utilities.
Open a dedicated bank account to make isolating the qualified costs easier.

Learn more about qualifying for loan forgiveness in Grassi's recorded webinar, Your PPP Loan Was Approved - Now What?

For more information on planning for maximum forgiveness of your PPP loan, please contact your Grassi advisor or reach out to our Crisis Response and Recovery hotline at 212.223.6216 or response@grassicpas.com to be connected with a Grassi Emergency Loan Consultant.

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