

PPP : Forgiveness and Beyond

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Insights³





Welcome Everyone!!!

Thank you for attending webinar, this is designed to be informative and interactive, so please feel free to ask questions as we go or share information you feel is important to the discussion.

Housekeeping

- Please mute your chat (option should be lower left in Zoom) DON'T FORGET TO UNMUTE WHEN TALKING!
- If you have a questions, please use the raise your hand feature if available (those on the phone will not have this option)
- Please feel free to post your comments in the Chat thread, we will try and respond to those as we go



Insights³





Important: Don't Blame the Messenger

The information contained in this presentation is new and ever changing. I have done my best to base it on the most recent information. The information we have discussed today, could and may be different tomorrow!!

While I have done my best to provide complete and accurate information, it is highly recommended you consult with your own tax and other business advisors. If you don't have one, our contact information is at the end of the materials.

Updates: Better late than never

FAQ 46 - Certification Safe Harbor (May 13, 2020)

- All Borrowers required to certify in good faith that “[c]urrent economic uncertainty makes this loan request necessary to support ongoing operations of the Applicant.”
- Loans under \$2 Million automatically deemed to have made the certification

Interim Final Rule on Loan Increases (May 13, 2020)

- Allows for partnership to ask for an increase if original loan application did not include partners income

Loan Application Form (May 15, 2020)

- **FINALLY** - Guidance on forgiveness –Or NOT!!!

Forgiveness: The Application

11 page, including 4 forms and instructions

- PPP Loan Forgiveness Calculation form - Required
 - Main Application - Summarizes information
 - Includes Certifications
- PPP Schedule A - Required
 - Payroll costs
 - Includes Reductions for wages and FTE's
- PPP Schedule A Worksheet - Not required to submit
 - Table 1 - Employees under 100K
 - Table 2 - List employees over 100K
- Borrower Demographic Information Form (Optional)

Forgiveness: What is it?

The Lessor of the following calculations

- Adjusted Actual Costs
 - Payroll Costs less Salary/Wage Reduction
 - Nonpayroll Costs (Mortgage Interest, Rent, & Utilities)
 - Above adjusted for FTE
- PPP Loan Amount
- Payroll Costs 75% Requirement
 - Divide total payroll costs (Before Adjustments) by .75
 - Example: a borrower has \$50,000 in payroll costs, the maximum forgiveness is \$66,667 ($\$50,000 / .75$)

Covered Periods: 8 Weeks (56 -days)

Covered Period (CP) - First day is the same day the PPP Loan is disbursed

Alternative Payroll Covered Period (APCP) - Begins the on the first day of their first pay period following their PPP distribution date

- Election available to biweekly or more frequent payroll schedules
- Example
 - Funds received on Monday 4/20/2020
 - Next pay period begins Sunday 4/26/2020
 - Alternative Payroll Covered Period: 4/26/2020 thru 6/20/2020
- Must use this period throughout for payroll

Forgiveness: Eligible Payroll Costs

Incurred and Paid

- Either the 8-week Covered (CP) or Alternative Payroll (APCP)
- Considered Paid when distributed or ACH originated
- Considered incurred on the day pay is earned
- **Treasury Bonus:** Payroll costs incurred but not paid during the last pay of the CP or APCP are eligible for forgiveness if paid on or before the next regular payroll date.
- Cash compensation not to exceed \$100,000 or \$15,385 per employee for the 8-week period
- Non cash payroll costs includes payments for health insurance, retirement and unemployment

Forgiveness: Eligible Nonpayroll Costs

Timing:

- Paid (*Instructions removed incurred*) during the covered period, or
- Incurred during the covered period and paid on or before the next regular billing date - Treasury Bonus: Even after the covered period

Costs - had to exist prior to February 15, 2020:

- Interest in business mortgage interest (no prepayments)
- Business rent or lease payments on real or personal property
- Business utilities - electricity, gas, water, transportation, telephone or internet access

Forgiveness: Owner Compensation

- Separated from other employee compensation
- Not included in reductions for FTE or Salary
- Includes: Owner-Employees, Self-Employed Individual or General Partners
- Cash Compensation Limited to lower of:
 - \$15,385 (eight week-equivalent of \$100,000) per individual, or
 - the eight week-equivalent of their applicable 2019 compensation
- Required certification on application
 - Dollar amount for which forgiveness is requested 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

Salary/Hourly Wage Reduction

Employee salary or hourly wages was no less 75% of 1st quarter 2020

- Average Annual Salary or Hourly Wages (hourly rate)
- Only employees who had less than \$100,000 in 2019 or not employed in 2019
- Owner-Employees are not included
- Only compare employees paid during Covered Period or Alternative Payroll Covered Period
 - Example, employee paid Q 1, but was not paid during CP or APCP would not be used in calculation - but would still be part of FTE calc
- Dollar for dollar reduction of forgiveness amount
- Have to do calculation for each employee

Salary/Hourly Wage Reduction

For each employee paid during the CP or APCP do the following:

- Step 1. Determine if pay was reduced more than 25%
 - Compare average annual salary or hourly wages during CP or APCP
- Step 2. Determine if the Salary/Hourly wage reduction safe harbor is met
 - Have to have reduction of Salary/Hourly Wage for period 2/15/2020 to 4/26/2020
 - Compare Average Annual Salary/Hourly Wage at 2/15/2020 to 6/30/2020
- Step 3. Determine the Salary/Hourly Wage Reduction
 - Hourly Wage - reduction of more than 25% is multiplied by weekly average hours paid during Q 1 2020 time 8 weeks
 - Salary Wage - reduction of more than 25% multiplied by 8 and divided by 52

Salary/Hourly Wage Reduction:

Example



	Employee A	Employee B	Employee C	Employee D
Step 1. Determine if pay was reduced more than 25%				
a. Average annual salary or hourly wage during CP or APCP	\$18.00/hr	\$10.00/hr	\$31,200	\$31,200
b. Average annual salary or hourly wage between 1/1/20 and 3/31/20	\$20.00/hr	\$20.00/hr	\$52,000	\$52,000
c. Divide 1.a by 1.b.	90.00%	50.00%	60.00%	60.00%
If 1.c. is 75% or greater, stop, you have no Salary/Hourly wage reduction, else go to step 2	Employee Paid More than 75% - STOP	Less than 75% - Got to Step 2	Less than 75% - Got to Step 2	Less than 75% - Got to Step 2

Salary/Hourly Wage Reduction:

Example



	Employee A	Employee B	Employee C	Employee D
Step 2. Determine if the Salary/Hourly Wage Reduction Safe Harbor is met				
a. Annual salary or hourly wage as of 2/15/2020		\$20.00/hr	\$31,200	\$52,000
b. Average annual salary or hourly wage between 2/15/2020 and 4/26/2020		\$10.00/hr	\$31,200	\$0.
Compare line 2.b. to 2.a. If 2.b. Is less than continue to step 2.c.. If not, move to step 3		Layoff Period Reduction Proceed to Step 2.C	No Reduction - Safe Harbor Not Available	Layoff Period Reduction Proceed to Step 2.C
c. Average annual salary or hourly wage as of 6/30/2020		\$10.00/hr	N/A	\$52,000
Compare 2.c. to 2.a., if equal or greater safe harbor has been met, stop, else go to step 3		Safe harbor Fail - Go to Step 3	Safe harbor Fail - Go to Step 3	Safe Harbor Met - STOP

Salary/Hourly Wage Reduction:

Example



	Employee A	Employee B	Employee C	Employee D
Step 3. Determine the Salary/Hourly Wage Reduction				
a. Multiply line 1.b. by .75		\$15.00	\$39,000	
b. Subtract the amount entered in 1.a. from 3.a		\$5.00	\$7,800	
c. Hourly - Avg hours worked per week from 1/1/2020 to 3/31/2020		40.00	N/A	
d. Hourly - Reduction Amount 3.b. X 3.c. X 8 Weeks		\$1,600	N/A	
e. Salaried - Reduction Amount 3.b. X 8 weeks / 52 weeks		N/A	\$1,200	

Full-Time Equivalency (FTE): What is it

The calculation, FINALLY

- Average number of hours worked per week
- Divided by 40, round to the nearest 10th
- Maximum capped at 1.0
- Examples
 - Employee works 300 hours for 8 week period: $300/8=37.5 / 40 = .9375$ or .90 FTE
 - Employee works 400 hours for 8 week period: $400/8=50 / 40 = 1.25$ max of 1.0
- Simplified Method
 - Election of borrower
 - Assign either 1.0 to those who work over 40 hours per week, and
 - 0.50 to those that work fewer
- Whatever method, must use throughout

Full-Time Equivalency (FTE): Reduction

Loan forgiveness is reduced by if the borrowers weekly FTE during the CP (or APCP) was less than the Borrower's chosen reference period

Reference periods:

- Most employers can elect either the period of
 - February 15, 2019 to June 30, 2019 or
 - January 1, 2020 to February 29, 2020
- Seasonal employers:
 - Either preceding periods or
 - A consecutive twelve-week period between May 1, 2019 and September 15, 2019
- For each employee, follow the same method

Full-Time Equivalency (FTE): Reduction

FTE Reduction Exceptions:

- Good-faith written offer to rehire an employee during the CP or APCP which was rejected by the employee
- Any employee who during the CP or APCP was:
 - Fired for cause
 - Voluntarily resigned
 - Voluntarily requested and received a reduction in their hours
- Only available if the position was not filled by a new employee
- Does not reduce the borrowers loan forgiveness

Observation: *There is no exception for reduction that occurred prior to the CP or APCP*

Full-Time Equivalency (FTE): Reduction

FTE Reduction Safe Harbor

The borrower is exempt from reduction if both of the following:

- The borrower reduced its FTE employee levels between February 15, 2020 and April 26, 2020, and
- FTE employee levels were restored no later than June 30, 2020 to the same FTE level for the pay period that included February 15, 2020.

Clear as mud!!!! - Let's do some examples

Full-Time Equivalency (FTE): EXAMPLES



	Example A	Example B	Example C	Example D
1. FTE for Reference Period	8	8	1	1
2. FTE 2/15/20 to 4/26/2020	0	8	0	.50
3. FTE for Period including 2/15/2020	8	8	1	1
4. FTE Covered Period	5	6	0	.50
5. FTE at 6/30/2020	8	8	0	1
FTE Reduction Quotient(line 4 / line 1) or 1 if safe harbor <i>Would Multiple Forgiveness Amount by this line to determine potential forgiveness</i>	1.0 Eligible for Safe Harbor and Restored by 6/30	.75 <i>Not eligible for Safe Harbor (no reduction in line 2)</i>	0.00 <i>Not eligible for Safe Harbor did not restore by 6/30</i>	1.0 <i>Safe Harbor, restore FTE by 6/30</i>

Practical Considerations: Now What?

- You have to submit application for forgiveness to your bank
- Bank has 60 days to render a decision
- Do NOT rely on your bank to catch errors or mistakes
- Provide as much documentation as you can
 - (f) PROHIBITION ON FORGIVENESS WITHOUT DOCUMENTATION
 - No eligible recipient shall receive forgiveness under this section without submitting to the lender that is servicing the covered loan the documentation required under subsection (e)
 - Plain English - NO DOCUMENTATION - NO FORGIVENESS

Documentation: Devil is in the Details



REQUIRED:

Payroll: 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:

- a. Bank account statements** or **third -party payroll service provider reports** documenting the amount of cash compensation paid to employees.
- b. 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:
 - i. Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
 - ii. State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- c. 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)).

Documentation: Devil is in the Details



REQUIRED

FTE: Documentation showing (at the election of the Borrower):

- a. the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019;
- b. the average number of FTE employees on payroll per month employed by the Borrower between January 1, 2020 and February 29, 2020; or
- c. 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.

The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11. Documents may include 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.

Documents submitted may cover periods longer than the specific time period.

Documentation: Devil is in the Details



REQUIRED

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

- a. **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.
- b. **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.
- c. **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: Devil is in the Details

NOT REQUIRED BUT MUST BE MAINTAINED:

PPP Schedule A Worksheet or its equivalent and the following:

- a. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
- b. 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.
- c. Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule.
- d. Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor.”

And anything else you can think of that will support your PPP Application and Compliance with the program.

All Documentation must be maintained for six years from date of loan is forgiven or repaid in full



Loan Terms: Not a Bad Deal!!

- 2 year term
- 1% annual interest rate
- First payment deferred for 6 months (interest continues to accrue)
- Nonrecourse
- No prepayment penalty

Final PPP Thoughts: BREATHE!!!!



“Just because we’re in a STRESSFUL situation doesn’t mean that we have to get stressed out. You may be in the storm. The key is, don’t let the storm get in you.”

- Joel Osteen

Tool kits are being put together by the MICPA in coordination with SBAM.

Rely on your professionals, & payroll companies –they can help.

THANK YOU!!!

▶ Any Questions?

For More Information



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James (Jamie) N. Lopiccolo, CPA, CGMA

MICPA



Jamie is the proud owner of the local CPA firm, Capocore Professional Advisors, located in downtown Lake Orion. Jamie specializes in providing accounting, financial reporting, tax planning, tax preparation and advisory services to closely held businesses and individuals. He has leveraged the use of technology and cloud computing to stay competitive and relevant to the changing business environment.

In his over 31 years of public accounting experience, Jamie has worked in multitude of areas including, manufacturing, construction, medical, professional service companies and real estate.

Jamie is a graduate of Walsh College and is a member of the American Institute of Certified Public Accountants (AICPA) and the Michigan Association of Certified Public Accountants (MICPA). where he serves as a member of the board of directors, the finance committee and Chair of the Small Firm Practitioners Task Force. Jamie also service as Treasurer and board member of the Orion Area Chamber of Commerce.

Jamie and his family live in the Oxford area and enjoy supporting the local communities.

Leon LaBrecque , J D , CPA , CFP® , CFA

MICPA



High impact enrichment for our clients and potential clients is my personal mission as Chief Growth Officer at Sequoia. I've long been driven by intelligent planning and financial literacy for all, and the combination of the two allows us to reduce uncertainty so our clients can focus on doing what they love, instead of worrying about tomorrow. We're on the cutting edge of a diverse range of planning tools, growth and wealth management strategies. I use these tools to ensure business owners and individuals alike receive the very best in investment and wealth management services. We are continually growing our breadth and depth of client offerings to connect clients and potential clients to new and expanded opportunities for growing their wealth, protecting future resources and propagating financial literacy through families and our communities.

I strive to serve our clients with high impact results, added value and real-world knowledge to help them meet their financial goals. Building real relationships allows me to truly help them manage their money more effectively. I thrive in thought leadership, knocking down complexity so that making smart choices is simpler.



Bob Weins, JD, CPA



Bob Weins has extensive start-up, business turn-around, venture capital and triple bottom-line strategy experience. His start-up/turn-around work includes: co-founding the firm that created the pattern recognition algorithms commonly used to detect credit card fraud; turn-around of the largest Apple Computer distributor serving the North American educational market; co-founding a web services company that created & hosted over 60,000 small business sites; and, transitioning an internet search marketing firm from losses to market leadership in growth and profitability. Bob's venture capital experience includes 3 roles at

Quantum Ventures of Michigan: Board or Directors member; CFO; and, Director of Start-Up Ventures. For the past 8-years, he has worked closely with Tom Brennan at the Green Garage in helping businesses and nonprofit organizations create and implement strategies that are economically sustainable while generating positive community and environmental impacts. His professional career began at Plante Moran and he later joined the law firm of Chirco Herrinton. He is a licensed CPA and attorney, earning his JD from the University of Michigan.

Disclaimer

- The information contained in the following presentation can be a good reference tool, it cannot be directly used to support any tax position you may take for yourself or recommend to a client. If you or your client are affected by the topics contained herein, you should read the source materials referenced in this presentation so that you may form your own conclusion about the applicability of the source materials to your or your client's specific situation.
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