

COVID-19: Maximizing Debt Forgiveness on Your PPP Loan

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Presenters



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Paycheck Protection Program Loan

Paycheck Protection Program Loan (PPPL)

- Loans provided during the period from February 15, 2020 to June 30, 2020
- SBA to provide 100% federally-backed loans
- Will be administered through commercial banks approved as SBA lenders
- No recourse unless loan proceeds are used for unauthorized purposes
- Loan under SBA Disaster Loan Program after Jan 31, 2020 may be refinanced under this new program
 - Understanding you can get both if proceeds are used for different purposes
- Exclusion for the small business requirement as it relates to restaurants and hotels, based on less than 500 employees per location
- Franchise affiliation

Paychecks Protection Program Loan

	Disaster Loan	Paycheck Protection Loan
Qualifying	<ul style="list-style-type: none"> • Less than 500 EEs or applicable industry size standard determined by SBA <ul style="list-style-type: none"> • For Profit businesses • Nonprofit organization • Veterans' organization • Tribal business • Sole proprietorships, with or without employees • Independent contractors • Cooperatives and ESOPs with < 500 EEs 	<ul style="list-style-type: none"> • Less than 500 EEs or applicable industry size standard determined by SBA <ul style="list-style-type: none"> • For Profit businesses • Nonprofit organization • Veterans' organization • Tribal business • Sole proprietors • Independent contractors • Self-employed individuals
Loan Amount	Up to \$2M based on formula	Up to \$10M based on a multiple of 2.5 times the average monthly payroll over one year prior to loan <u>PLUS</u> outstanding loan under Disaster Loan Program
Loan Proceeds Use	Payroll, paid sick leave, payables, debt service	Payroll costs, benefits costs, salaries and commissions, mortgage interest, rent, utilities and interest on debt incurred before February 15th
Interest Rate	3.75% for business and 2.75% for nonprofits	1.0%

What Does Payroll Include?

Sum of payment of any compensation with respect to employees that is:

- Salary, wage, commission or similar
- Payment of cash tip or equivalent
- Payment for vacation, parental, family, medical or sick leave
- Allowance for dismissal or separation
- Payment required for group health care including premiums
- Payment of retirement benefit
- Payment of any state or local tax (e.g., SUTA)
- Sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from SE or similar compensation and that is in an amount that is not more than \$100,000 in year (pro-rated for covered period)

What Does Payroll Not Include?

Does NOT include:

- Cash compensation in excess of \$100,000
- Taxes imposed or withheld under chapters 21, 22 or 24 of the IRS Code from 2/15/2020 – 6/30/2020
 - **Recently clarified on 4/6 – This means only that the employer portion of FICA cannot be included. It does not mean you have to back out any employee portions of FICA or Federal Withholding]**
- Compensation of an employee whose principal place of residence is outside of the US
- Qualified sick leave wages for which a credit is allowed under Families First (no double dipping)
- Qualified family leave wages for which a credit is allowed under section 7003 of the FFCRA
- **Payments to independent contractors (1099) by a company. The individual 1099 contractors will be able to file for their own PPPL**

Paychecks Protection Loan

	Disaster Loan	Paycheck Protection Loan
Terms	Up to 30 years	Two year maturity
Debt forgiveness	None	Provides for debt forgiveness with stipulations. At least 75% must be used for payroll
Deferral of Payments	Up to one year	Minimum of six months, up to one year
Personal Guarantee	Waived on advances and loans of \$200,000 or less for all applicants	No personal guarantee or collateral required
Prepayment Penalties	Waived	Waived
Credit Elsewhere	Waived	Waived
Approval documentation	No tax return submission required. Based solely on credit scores or alternative methods to determine ability to pay	Good-faith certification <ul style="list-style-type: none"> • Fund operations during COVID-19 • Fund payroll, mortgage, lease and utility payments • No other application under program for same purpose • Has not received duplicative amounts under this program

Where's My Money?

- Unprecedented, historic event
 - Tsunami of applications
 - Guidance is lacking
 - Lack of advance planning
- Banks and SBA are overwhelmed
 - Typical year for SBA is \$30 Billion – this is 10x in days
 - Volume and understaffing
- What can you do?
 - Be patient
 - Take the time to fill out your application in full to avoid delays
 - Keep in contact with your bank

PPPL Debt Forgiveness

How does debt forgiveness work?

- Amount forgiven cannot exceed principal amount of the loan
- Debt forgiveness is excluded from gross income
- Equal to costs incurred and payment made during covered period – eight weeks after the date of the loan is issued for:
 - Payroll costs
 - Interest payments on mortgages (both real and personal property) incurred prior to 2/15/2020
 - Rent
 - Utility payments
- Will be reduced for any employee cuts or reductions based on formula
- Relief is available for employers
 - Rehire employees by June 30, 2020
 - Make up for wage reductions by June 30, 2020

PPPL Debt Forgiveness

Step 1 - Create a Pool of Eligible Dollars

- Determine the pool of eligible dollars
- Spent in the eight weeks after the origination of the loan
- Based on the eligible costs
 - Payroll (75%)
 - Non-Payroll (25%)
 - Rent
 - Utilities
 - Interest on mortgage debt
- No more than 25% of the dollars should be to non-payroll expenses

PPPL Debt Forgiveness

Step 2 – Workforce Retention

- Full-time equivalent employee (“FTEE”)
 - Using definition under Affordable Care Act of 30 hours
- Sets a baseline – at the company’s option, either:
 - Average FTEES 2/15/2019 to 6/30/2019 **–OR–**
 - Average FTEES 1/1/2020 to 2/29/2020
- Compares the baseline to the average FTEEs during the eight week period to create a % of FTEEs retained
- Can be “cured” by rehiring 100% of workforce by June 30, 2020
- Not the same employees, simply an FTEE count

PPPL Debt Forgiveness

Step 3 – Payroll Reduction

- Further reduction for any “individual” whose pay has been reduced by more than 25%
 - Does not include employees who make more than \$100,000 on an annualized basis.
- Can be “cured” by putting salaries back to pre-reduction levels by June 30, 2020
 - Focus on job title/role (e.g., cashier or cook)

How to measure:

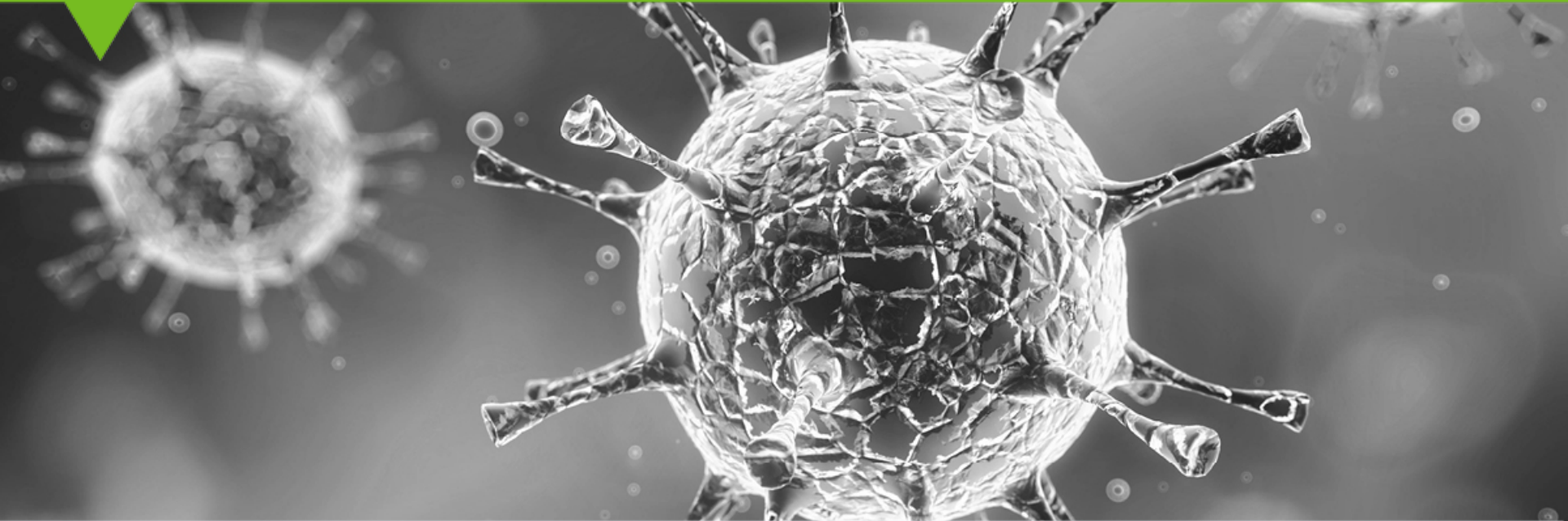
- Compare listing of employee roles and wages for prior full quarter, prior to “covered period” pro-rata compared to average wage over eight week period *OR* at June 30, 2020
- For those wages reduced by more than 25%, those incremental reductions (>25%) are reduced from the forgiveness amount.

PPPL Debt Forgiveness

Part-time employee considerations (subject to interpretation)

- **Generally, a decrease in hours is expected rather than a decrease in the hourly wage**
 - Decrease in hours impacts FTEE calc (Step 2)
 - Decrease in hourly wage impacts Payroll Reduction calc (Step 3)
- **Example assuming one employee**
 - If an employee worked 30 hours a week at \$10 an hour – then they were getting \$300 and counted as 1 FTEE per the ACA.
 - Then the employee's hours were cut to 15 hours. They will only count as 0.5 FTEs resulting in a workforce reduction of $0.5/1.0 = 50\%$ forgivable.
 - If you then compare average wages per FTE to after FTE, then you're going to get the same average wages. $\$300/1 = \300 or $\$150/0.5 = \300 .
 - If you then also decreased the rate to \$5 per hour, that's when you'd see the decrease for the pay rate reduction portion.

Example of Debt Forgiveness



- Scenario 1** **Business has retained significant number of employees**
- Scenario 2** **Business has not retained a significant number of employees, but rehires on June 30, 2020**
- Scenario 3** **Same as Scenario 2 and defers non-payroll costs over “covered period”**

Debt Forgiveness Calculation #1

- Loan Amount – \$500,000
- Loan Funded 4/15/2020
- Spent in eight weeks after 4/15/2020
 - Payroll costs \$472,000
 - Rent \$25,000
 - Utilities \$12,500
 - Total \$509,000
- Average Total FTEE – 2/15/2019 – 6/30/2019 = 64
- Average Total FTEE – 1/1/2020 – 2/29/2020 = 71
- Average Total FTEE eight weeks after the loan = 65

Debt Forgiveness Calculation #1

- Total Spent – \$509,500
- % of Spent Payroll – 92.7% ($\$472,000/\$500,000$)
 - Non-Payroll cannot exceed 25%
- Eligible Dollars For Forgiveness – \$500,000
 - Can't exceed loan amount
- Workforce Retention Factor – 65/64 – 100%
- Debt Forgiveness - $\$500,000 * 100\% = \underline{\underline{\$500,000}}$

Debt Forgiveness Calculation #2

- Loan Amount – \$2,000,000
- Loan Funded 4/15/2020
- Spent in eight weeks after 4/15/2020
 - Payroll costs \$350,000
 - Rent \$100,000
 - Utilities \$75,000
 - Interest on debts \$240,000
- Total FTEE – 2/15/2019 – 6/30/2019 = 180
- Total FTEE – 1/1/2020 – 2/29/2020 = 194
- Total FTEE eight weeks after the loan = 40

Debt Forgiveness Calculation #2

- Total Spent - \$765,000
- Total Spent Payroll – \$350,000
- Maximum of Non Payroll - \$116,666 (25%)
- Eligible Dollars For Forgiveness – \$466,000
- Workforce Retention Factor – 40/180 – 22.2%
- Debt Forgiveness – $\$466,000 * 22.2\% = \mathbf{\$103,545}$

----- Trigger the June 30th Clause -----

- Eligible Dollars For Forgiveness – \$466,000
- Workforce Retention Factor – 40/180 - 22.2%
- Rehired by June 30, 2020? Yes. Percentage = 100%
- Debt Forgiveness – $\$466,000 * 100\% = \mathbf{\$466,000}$

Debt Forgiveness Calculation #2

	Baseline	Hire Back on Day 1	Trigger June 30th	Hire Back & Trigger June 30 th
Loan Amount	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Payroll	\$ 350,000	\$ 550,000	\$ 350,000	\$ 550,000
NonPayroll	\$ 390,000	\$ 390,000	\$ 390,000	\$ 390,000
Maximum NonPayroll	\$ 116,667	\$ 183,333	\$ 116,667	\$ 183,333
Avg FTEEs – Baseline	180	180	180	180
Avg FTEEs - 8 Weeks	40	63	40	63
Workforce Retention	22.2%	35.0%	100.0%	100.0%
Debt Forgiveness	\$ 103,704	\$ 256,667	\$ 466,667	\$ 733,333
Additional Forgiveness		\$ 152,963		\$ 266,667
Cost of Additional Forgiveness		\$ 200,000		\$ 200,000

Debt Forgiveness Calculation #3

- Loan Amount – \$250,000
- Loan Funded 4/15/2020
- Spent in eight weeks after 4/15/2020
 - Payroll costs \$18,500
 - Rent \$50,000
 - Utilities \$7,000
 - Interest on debts \$24,000
- Total FTEE – 2/15/2019 – 6/30/2019 = 40
- Total FTEE – 1/1/2020 – 2/29/2020 = 40
- Total FTEE eight weeks after the loan = 4

Debt Forgiveness Calculation #3

- Total Spent – \$18,500 (non payroll costs deferred)
- Total Spent Payroll – \$18,500
- Maximum of Non Payroll – Deferred; max would be \$6,166 (25%)
- Eligible Dollars For Forgiveness – \$18,500
- Workforce Retention Factor – 4/40 – 10.0%
- Debt Forgiveness - $\$18,500 * 10\% = \mathbf{\$1,850}$

----- Trigger the June 30th Clause -----

- Eligible Dollars For Forgiveness – \$18,500
- Workforce Retention Factor – 4/40 – 10.0%
- Rehired by June 30, 2020? Yes. Percentage = 100%
- Debt Forgiveness – $\$18,500 * 100\% = \mathbf{\$18,500}$

Debt Forgiveness Calculation #3

	Baseline (Defer non- payroll)	Pay Partial NonPayroll	Trigger June 30th	Pay Partial NonPayroll Trigger June 30th
Loan Amount	\$250,000	\$250,000	\$250,000	\$250,000
Payroll	\$18,500	\$18,500	\$18,500	\$18,500
NonPayroll	\$0	\$6,150	\$0	\$6,150
Maximum NonPayroll	\$6,150	\$6,150	\$6,150	\$6,150
Avg FTEEs – Baseline	40	40	40	40
Avg FTEEs - 8 Weeks	4	4	40	40
Workforce Retention	10.0%	10.0%	100.0%	100.0%
Debt Forgiveness	\$1,850	\$2,460	\$18,500	\$24,650
Additional Forgiveness		\$610		\$6,150
Cost of Additional Forgiveness		\$6,150		\$6,150

PPL Debt Forgiveness

How do I apply for forgiveness?

- Borrowers must submit the following to their lender:
 - Documentation verifying employees on payroll and their pay rates
 - Documentation on covered costs/proof of payments
 - Certification from business representative
 - Additional documentation as requested
 - Amount forgiven cannot exceed principal amount of the loan

Develop a Plan – What are your goals?

- Plan to maximize debt forgiveness in a way that makes economic and business sense
- What are your priorities?
 - Forgiveness
 - Retain workforce
 - Liquidity needs (survival)
 - All of the above
- Timing the eight week covered period
 - When to take the loan? Must take within 10 days of approval
 - Beginning if you have all your employees currently
 - End (if you can) of the period – if you have a low work force – get the benefit of the eight weeks following the day you take the loan in July/August. Employees back at work.

Develop a Baseline Plan

- Develop your “budget” for the eight week covered period
 - Wait until the eight week period clock starts
 - Develop a loan forgiveness template or engage a third party
- Perform multiple “what if” scenarios that could increase your overall forgiveness
 - Timing of when your operations will be reopened
 - Timing of hiring back employees
 - Consideration of restrictions still in place even if reopened
 - Level of sales expected during the ramp up
 - May behoove you to continue to pay partial utilities, interest and rent, whereas you might have negotiated not to.
 - Impact on FTEE count and wage reduction penalties
- Balancing the 75/25 rule of payroll vs. non-payroll eligible expenses

Develop a Plan – Monitor the Baseline Plan

- Use the baseline plan as your budget and perform a “budget to actual” on a regular basis, at least weekly
- Adjust your loan forgiveness model assumptions based on your actual
- Consider waiting towards the end of eight weeks to pay non-payroll costs
- Monitor changes to the PPP
 - Changes will continue to be made that may be favorable to your industry
 - Documentation requirements could change

Develop a Plan – Documentation

- Forgiveness is based on how you can substantiate the eligible expenses to be forgiven
- Consider setting up a separate bank account for those funds
 - All eligible expenses are disbursed from this account
 - Prevent commingling of loan funds
- Know what the bank will be requesting to support the amount of forgiveness
 - Payroll records supporting amounts paid under the definition of “payroll costs”, # of FTEEs, wages paid to “individuals”

The more prepared you are, the more efficient the process will be

What's Next?

- Consideration of additional changes to the PPP to reflect the business concerns of those industries most impacted (e.g., restaurants and hospitality, those forced to close).
 - For example:
 - Adjustment to the 75/25 rule
 - Flexibility to the eight week covered period
 - Loan term extension
 - Allowing deferral of payroll taxes even if forgiveness is provided
 - General exemptions
- Consideration of additional funding to the PPP through additional legislation by Congress

What to Expect from GBQ

- **Knowledge.** We're reading and reacting all day every day so that we can share important information with you quickly.
- **Accessibility.** We're not in the office, but we're on high alert to help with whatever you need.
- **Reliability.** One of us may not know the answer, but our team will find it, whether inside or outside of GBQ. We will help you solve your problems.
- **Empathy.** We are learning every day, just like you. We are worried about our employees, our customers and our families, just like you.

Questions

