

# PPP Forgiveness Application

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# 10 Things We Learned from the PPP Forgiveness Application



## Paycheck Protection Program Loan Forgiveness Application

OMB Control Number 3245-0407  
Expiration Date: 10/31/2020

### PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")	DBA or Tradename, if applicable	
Business Address	Business TIN (EIN, SSN)	Business Phone
		( ) -
	Primary Contact	E-mail Address

SBA PPP Loan Number: \_\_\_\_\_ Lender PPP Loan Number: \_\_\_\_\_

PPP Loan Amount: \_\_\_\_\_ PPP Loan Disbursement Date: \_\_\_\_\_

Employees at Time of Loan Application: \_\_\_\_\_

Employees at Time of Forgiveness Application: \_\_\_\_\_

EIDL Advance Amount: \_\_\_\_\_ EIDL Application Number: \_\_\_\_\_

**Payroll Schedule:** The frequency with which payroll is paid to employees is:

☐ Weekly    ☐ Biweekly (every other week)    ☐ Twice a month    ☐ Monthly    ☐ Other \_\_\_\_\_

**Covered Period:** \_\_\_\_\_ to \_\_\_\_\_

**Alternative Payroll Covered Period, if applicable:** \_\_\_\_\_ to \_\_\_\_\_

# 10 Things We Learned from the PPP Forgiveness Application

## 1. Covered Period

- The “covered period” is the 8-week period generally beginning on the date you received the loan disbursement.
- The instructions to the application allow for as-yet-unseen flexibility in choosing your 8-week covered period specific to payroll costs. Borrowers with a biweekly (or more frequent) payroll schedule may elect to choose an “alternative payroll covered period,” which is the 8-week (56 day) period beginning on the first day of the first pay period following the disbursement date, allowing a business to neatly align its covered period with the beginning of a pay period.
- Thus, if you received your PPP loan on April 20, 2020, and the first day of your next pay period is April 26, 2020, you may elect to count the payroll costs — and only the payroll costs — for the 8-week period beginning April 26, 2020, rather than the 8-week period beginning April 20, 2020.
  - If you elect to use the “alternative payroll covered period,” you HAVE to use it everywhere that the alternative payroll covered period is an option.

# 10 Things We Learned from the PPP Forgiveness Application

## 2. “Paid or Incurred”

- Payroll costs are paid on the day the paychecks are distributed or the borrower originates an ACH credit transaction. Thus, you could presumably receive PPP loans on, for example, April 16 and immediately pay – as part of your regular payroll process – wages that had been earned by the employees for the previous two weeks, and include the amounts in the forgiveness calculation because the amounts had been PAID within the covered period. What is not clear, however, is how far in arrears you may pay wages with PPP funds and continue to count those wages towards forgiveness.
- The application instructions further provide that payroll costs are incurred on the day they are earned, before providing additional flexibility by allowing the payroll costs incurred for your last pay period of the 8-week period to be eligible for forgiveness as long as they are paid no later than the next regular payroll date.
- For non-payroll costs such as mortgage interest, rent and utilities, to qualify for forgiveness, these expenses must either be: 1) paid DURING the 8-week covered period, or 2) INCURRED during the 8-week period, and paid by its next regular due date, even if that due date is outside the 8-week period.
- Once again, it would appear that by allowing all payments made DURING the period to be eligible for forgiveness, borrowers are permitted to pay rent, interest, or utilities related to periods prior to the 8-week period and have those expenses forgiven.

# 10 Things We Learned from the PPP Forgiveness Application

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## PPP Schedule A Worksheet

**Table 1:** List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
<b>FTE Reduction Exceptions:</b>				
<b>Totals:</b>		<b>Box 1</b>	<b>Box 2</b>	<b>Box 3</b>

# 10 Things We Learned from the PPP Forgiveness Application

## 3. How to compute FTEs

- To determine the average full-time equivalent employees (FTEs) for the 8-week covered period (or the alternative payroll covered period, if elected, or any other periods where it's required), for each qualifying employee:
  - Determine the average number of hours worked per week for the applicable period;
  - Divide the average number of hours worked per week and divide by 40, before rounding to the nearest tenth. The maximum amount for each employee is 1.0.
  - Alternatively, you can skip the math and use 1.0 for every employee who worked 40 hours per week and 0.5 for every employee who didn't meet that standard. Either way you get there, you will ultimately arrive at the average FTE throughout the relevant covered period.

# 10 Things We Learned from the PPP Forgiveness Application

## 3. How to Compute FTEs

- Example. X Co. borrowed a \$100,000 PPP loan on April 10, 2020. X Co. incurred \$100,000 of costs eligible for forgiveness over the next 8 weeks. For the 8-week period beginning April 10, X Co. had the following employees:
  - A, who averaged 45 hours per week during the period,
  - B, who averaged 40 hours per week during the period,
  - C, who averaged 28 hours per week, and
  - D and E, who averaged 20 hours per week.
- For the 8-week covered period, X Co. had 3.7 FTEs:
  - A:  $45/40$  capped at 1.0; B:  $40/40 = 1.0$ ; C:  $28/40 = .7$ ; D & E:  $20/40 = .5$  each
- If X Co. chose instead to use the simplified method, it would have 3.5 FTEs:
  - A:  $45/40$  capped at 1.0; B:  $40/40 = 1.0$ ; C:  $28/40 = .5$ ; D & E:  $20/40 = .5$  each

# 10 Things We Learned from the PPP Forgiveness Application

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## PPP Schedule A Worksheet

**Table 1:** List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

# 10 Things We Learned from the PPP Forgiveness Application

## 4. Salary/Wage Reduction

- The total amount of loan forgiveness will eventually be reduced by the amount of any reduction in total ANNUAL salary or AVERAGE wages of any employee during the covered 8-week period who did not receive, during any single pay period during 2019, wages or salary at an annualized rate of pay of more than \$100,000.
- The reduction in forgiveness amount is required if the reduction in wages over the 8-week period is in excess of 25% of the total salary or wages of the employee during the period from January 1, 2020 through March 31, 2020.
- The reduction is limited to 8/52 of the excess of:
  - 1) 75% of the base period salary, over
  - 2) the amount received during the covered period.

# 10 Things We Learned from the PPP Forgiveness Application

## 4. Salary/Wage Reduction

- Example. Employee A was paid an annual salary of less than \$100,000 for 2019. A was paid \$8,000 during the 8-week covered period. A was paid \$20,000 for the period January 1, 2020, through March 31, 2020.
  - Step 1: A's average annual salary was \$52,000 for the 8-week covered period ( $\$8,000/8 \times 52$ ).
  - Step 2: A's average annual salary was \$80,000 for the period January 1, 2020, through March 31, 2020 ( $\$20,000 \times 4$ ).
  - Step 3:  $\$52,000/\$80,000 = 65\%$ .
  - Step 4: Before application of the safe harbor, A's employer would reduce forgiveness attributable to A by the following amount:  $\$80,000 \times 75\% = \$60,000$ .  $\$60,000 - \$52,000 = \$8,000$ .  $\$8,000/52 \times 8 = \$1,230$ .

# 10 Things We Learned from the PPP Forgiveness Application

## 5. Salary/Wage Reduction Restoration

- The reduction is not required, however, if a safe harbor is met. Whether the safe harbor is met is determined via the following steps:
  - Step 1: Determine the annual salary or hourly wage as of February 15, 2020. **Is this just for a moment in time?**
  - Step 2: Determine the average annual salary or hourly wage for the period from February 15, 2020 through April 26, 2020.
  - Step 3: If Step 2 is greater than Step 1, the safe-harbor does not apply. If Step 2 is less than Step 1, proceed to Step 4. **But why? Why can't you use the safe harbor if salary increased between February 15 and April 26?**
  - Step 4: Determine the average annual salary or hourly wage for the employee as of June 30, 2020. **Again, is this for a moment in time?** If that amount is equal to or greater than Step 1, the safe harbor has been met.
  - In other words, the SBA will ignore a reduction in salary during the covered period relative to the 1st quarter of 2020, but ONLY IF that salary is restored to what it was on February 15, 2020, by June 30, 2020.

# 10 Things We Learned from the PPP Forgiveness Application

## 5. Salary/Wage Reduction Restoration

- Continuing the previous example, assume that on February 15, 2020, A was being paid an annual salary of \$75,000. After the arrival of COVID-19, however, A's average salary for the period February 15, 2020 through April 26, 2020, was reduced to \$55,000. It was further reduced for much of May, which is what resulted in A being paid only \$8,000 for the covered period. By June 30, 2020, however, A's annual salary was increased to \$75,000.
- Even though A's salary has returned only to the amount he was paid on February 15 (\$75,000) and not the amount he was paid throughout the first quarter (\$80,000), the safe harbor is met and no reduction is required.

# 10 Things We Learned from the PPP Forgiveness Application

## 5. Salary/Wage Reduction Restoration

- Per-Hour Example
  - A was paid \$20/hour from January 1, 2020 through March 31, 2020.
  - A's pay was cut to \$12/hour during the covered period.
  - Assume A's pay was not increased before June 30th, 2020.
  - To determine the reduction:
    - $\text{Multiply } \$20 \times 75\% (\$15) \text{ and subtract } \$12 = \$3$
    - Take A's average hours worked per week from January 1, 2020 through March 31, 2020: assume it is 20
    - $\text{Multiply } 20 \text{ by } \$3 = \$60$ .
    - $\text{Multiply } \$60 \text{ by } 8 = \$240$ .

# 10 Things We Learned from the PPP Forgiveness Application

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): \_\_\_\_\_

Full-Time Equivalency (FTE) Reduction Calculation

If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period, check here ☐, skip lines 11 and 12 and enter **1.0** on line 13.

Line 11. Average FTE during the Borrower's chosen reference period: \_\_\_\_\_

Line 12. Total Average FTE (add lines 2 and 5): \_\_\_\_\_

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met: \_\_\_\_\_

# 10 Things We Learned from the PPP Forgiveness Application

## 6. FTE Reduction

- The amount of loan forgiveness may ALSO be reduced if the borrower reduces headcount during the covered period. Just as we saw with the reduction resulting from reduced salary, however, the reduction may be ignored if a safe harbor is satisfied.
- Your forgiveness is reduced if your average number of full-time equivalent employees (FTEs) during the covered period is less than the average number of FTEs for any of the following periods, at your election:
  - The period beginning on February 15, 2019 and ending on June 30, 2019; or
  - The period beginning on January 1, 2020 and ending on February 29, 2020, or
  - For a seasonal employer, as determined by the SBA, either of the two previous periods or any 12-week period between May 1, 2019 and September 15, 2019.

# 10 Things We Learned from the PPP Forgiveness Application

## 6. FTE Reduction

- Example. X Co. borrowed a \$100,000 PPP loan on April 10, 2020. X Co. incurred \$100,000 of costs eligible for forgiveness over the next 8 weeks. For the 8-week period beginning April 10, X Co. had the following employees:
  - A, who averaged 45 hours per week during the period,
  - B, who averaged 40 hours per week during the period,
  - C, who averaged 28 hours per week, and
  - D and E, who averaged 20 hours per week.
- For the 8-week covered period, X Co. had 3.7 FTEs:
  - A:  $45/40$  capped at 1.0; B:  $40/40 = 1.0$ ; C:  $28/40 = .7$ ; D & E:  $20/40 = .5$  each
- Assume further that for the periods February 15, 2019 through June 30, 2019, and January 1, 2020 through February 29, 2020, X Co. had the following employees:
  - A, who averaged 45 hours per week during the period,
  - B, who averaged 40 hours per week during the period,
  - C, who averaged 40 hours per week,
  - D and E, who averaged 28 hours per week, and
  - F and G, who averaged 40 hours per week.

# 10 Things We Learned from the PPP Forgiveness Application

## 6. FTE Reduction

- For those 8-week periods, X Co. had 6.4 FTEs:
  - A:  $45/40$  capped at 1.0
  - B:  $40/40 = 1.0$
  - C:  $40/40 = 1.0$
  - D & E:  $28/40 = .7$  each
  - F & G:  $40/40 = 1$  each
- Thus, before considering any safe harbor or reinstatement, X Co.'s amount eligible for forgiveness of \$100,000 must be reduced by multiplying \$100,000 by  $3.7/6.4$ . Thus, the forgiveness is tentatively capped at \$57,813.

# 10 Things We Learned from the PPP Forgiveness Application

**FTE Reduction Exceptions:** Indicate the FTE of (1) any positions for which the Borrower made a good-faith, written offer to rehire an employee during the Covered Period or the Alternative Payroll Covered Period which was rejected by the employee; and (2) any employees who during the Covered Period or the Alternative Payroll Covered Period (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested and received a reduction of their hours. In all of these cases, include these FTEs on this line only if the position was not filled by a new employee. Any FTE reductions in these cases do not reduce the Borrower's loan forgiveness.

**Boxes 1 through 5:** Enter the sums of the amounts in each of the columns.

## **FTE Reduction Safe Harbor**

A safe harbor under applicable law and regulation exempts certain borrowers from the loan forgiveness reduction based on FTE employee levels. Specifically, the Borrower is exempt from the reduction in loan forgiveness based on FTE employees described above if both of the following conditions are met: (1) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (2) the Borrower then restored its FTE employee levels by not later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.

# 10 Things We Learned from the PPP Application

## 7. FTE Reduction Restoration

- A borrower may ignore the required reduction, however, if a safe harbor is met. To satisfy the safe harbor, the borrower must first use the methodology described above to determine FTEs for two additional periods:
  - The period from February 15, 2020, through April 26, 2020, and
  - For the pay period that includes February 15, 2020,
- If the average FTEs for the first period is less than the FTEs for the second period, the borrower must then compare the average FTEs for the second period to the total FTEs as of June 30, 2020. If the FTEs on June 30, 2020 are greater than the FTEs on February 15, 2020, the safe harbor is met and no reduction is required.
- Example. Continuing the example above, assume X Co. had 4.2 FTEs for the period February 15, 2020, through April 26, 2020, and 4.5 FTEs on February 15, 2020. X Co. then reduced the hours of some of their employees and terminated others, resulting in only 3.7 FTEs for the covered period. Because X Co. had more employees on February 15, 2020, then during the period February 15, 2020, through April 26, 2020, X Co. must then compare the number of FTEs on February 15, 2020 – 4.5 – to the number on June 30, 2020. Provided the number of FTEs on June 30, 2020 is equal to or greater than 4.5, no reduction in forgiveness is required.

# 10 Things We Learned from the PPP Forgiveness Application

## Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

Line 6. Total amount paid by Borrower for employer contributions for employee health insurance: \_\_\_\_\_

Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans: \_\_\_\_\_

Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation: \_\_\_\_\_

## Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners: \_\_\_\_\_  
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each.

# 10 Things We Learned from the PPP Forgiveness Application

## 8. **Non-compensation payroll costs; in addition to \$100,000/employee cap.**

- Interesting: Previous informal guidance had indicated that severance/vacation pay were in addition to the \$100,000 cap per employee. Now it appears they are subject to the cap.
- Application includes employer contributions to a self-insured, employer-sponsored group health plan, but excluding any pre-tax or after-tax contributions by employees.
- Retirement contributions do NOT include any pre-tax or after-tax contributions by employees.

## 9. **Treatment of owner/employees, general partners, self-employed taxpayers (other partners?)**

- These individuals do not appear to be treated as employees and included in the FTE computation.
- More importantly, it appears non-compensation payroll costs for owner-employees, partners and self-employed taxpayers are NOT forgivable.
- MOST importantly, these taxpayers cannot increase their pay during the 8-week period relative to 8/52 of their 2019 compensation. The amount forgivable is the LESSER of the amount paid to the individual during the 8-week covered period or 8/52 of 2019 compensation.

# 10 Things We Learned from the PPP Forgiveness Application

## 10. Determining Final Forgiveness

- The amount forgiven is the lesser of:
  - Total payroll costs/mortgage interest/rent/utilities, less salary reduction amount, multiplied by any FTE reduction quotient.
  - The principal balance of the loan (one piece of previous guidance had suggested accrued interest could be accrued as well).
  - Payroll cost/75%.
- Two big takeaways here:
  - There is NO cliff; whereby a borrower has to use 75% of the loan PROCEEDS on payroll or else NONE of the loan was forgivable. Instead, it's what we expected: the amount eligible for forgives is capped at total payroll costs/75%.
  - Other good news: the payroll cost/75% formula is done BEFORE any reduction for salary reduction/FTE reduction.

# Still Need-Additional Guidance

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- As you can see we still need additional guidance to clear up some unanswered questions.
  - Payments of self-rental rent?
  - What are utilities? / What is rent?
  - Can you really take non-payroll costs paid during the 8-week window as well as those amounts incurred and paid after the 8 – weeks?
    - Effectively giving borrowers 3 months of deductions
  - Treatment of partners?

# Working Through It: Schedule A Worksheet

## PPP Schedule A Worksheet

**Table 1:** List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
<b>FTE Reduction Exceptions:</b>				
<b>Totals:</b>		<b>Box 1</b>	<b>Box 2</b>	<b>Box 3</b>

# Working Through It: Schedule A Worksheet

**Table 2:** List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

# Working Through It: Schedule A



## PPP Schedule A

### PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:

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Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:

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Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:

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If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here ☐ and enter 0 on line 3.

# Working Through It: Schedule A

## PPP Schedule A Worksheet, Table 2 Totals

Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:

\_\_\_\_\_

Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:

\_\_\_\_\_

# Working Through It: Schedule A

## Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

Line 6. Total amount paid by Borrower for employer contributions for employee health insurance: \_\_\_\_\_

Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans: \_\_\_\_\_

Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation: \_\_\_\_\_

# Working Through It: Schedule A

## Compensation to Owners

Line 9. Total amount paid to owner-employees/self-employed individual/general partners:

This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each.

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# Working Through It: Schedule A

Total Payroll Costs

Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): \_\_\_\_\_

Full-Time Equivalency (FTE) Reduction Calculation

If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period, check here ☐, skip lines 11 and 12 and enter **1.0** on line 13.

Line 11. Average FTE during the Borrower's chosen reference period: \_\_\_\_\_

Line 12. Total Average FTE (add lines 2 and 5): \_\_\_\_\_

Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met: \_\_\_\_\_

# Working Through It: Application

**If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here: ☐**

## **Forgiveness Amount Calculation:**

### Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):

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Line 2. Business Mortgage Interest Payments:

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Line 3. Business Rent or Lease Payments:

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Line 4. Business Utility Payments:

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# Working Through It: Application

## Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):

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Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:

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Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):

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# Working Through It: Application

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):

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Line 9. PPP Loan Amount:

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Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):

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Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

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# 10 Things We Learned from the PPP Forgiveness Application

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- Slides and the webinar recording will be posted at a later date to [www.RubinBrown.com](http://www.RubinBrown.com)
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