

The New PPP Flexibility Act of 2020

New Guidance, New Deadlines and How to Complete
the Current Loan Forgiveness Application

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Presented in conjunction with:



Welcome

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Disclaimer

The following information is based on a careful review of sources we believe to be accurate. However, there are a number of items still subject to interpretation.

We continue to monitor and pass along updated guidance as it becomes available.

If you have any questions about the CARES Act, or the PPP please get in touch with your WBL contact.



Agenda

- New PPP Flexibility Act
- Updated PPP Loan Forgiveness Guidance
- How to Complete the PPP Loan Forgiveness Application
- Timelines
- Unresolved Issues with PPP Loan Forgiveness
- Best Practices



PPP Flexibility Act

- Companies or nonprofits now may apply for PPP loans through **December 31st** (vs. June 30th) or until the money runs out.
- Borrowers now have **24 weeks or until December 31st**, whichever is earlier, to spend PPP loan funds. Or they may elect to continue using the eight-week period if they already received a loan.
- The 25% limit on nonpayroll expenses qualifying for loan forgiveness is **increased to 40%**.
 - Borrowers must use **at least** 60% of the PPP loan funds for payroll costs to qualify for any forgiveness.
 - We think that may change but it is manageable either way.
- Borrowers now have until **December 31st** (was June 30th) to rehire employees and/or restore salary or wages to avoid a reduction in loan forgiveness (safe harbor).

PPP Flexibility Act (cont'd)

- Borrowers unable to rehire laid off/furloughed employees, hire similar qualified replacements or return to the same level of business due to COVID-19-related requirements (e.g., worker and customer safety guidance), and can document such, can qualify for the FTE “safe harbor.”
- All new PPP loans made going forward will mature in five years and lenders can extend maturity for existing PPP loans at their discretion.
- Borrowers can now defer 6.2% OASDI (employer payroll) taxes as outlined in the CARES act even if they receive PPP loan forgiveness.
- Interest and principal payments can be delayed until either the lender receives payment of the forgiveness amount from the SBA, or 10-months after the end of the 24-week covered period, whichever is earlier.

SBA New Loan Forgiveness Guidance: *Covered Period*

- 24-week covered period = 168 days or eight-week covered period = 56 days
- Options for when the eight- or 24-week covered period begins for payroll expenses:
 - “Covered Period” starts on day of loan disbursement
 - “Alternative Covered Period” starts on the first day of the first pay period after loan disbursement
- For non-payroll costs, the covered period begins on the day of loan disbursement
- Covered and alternative covered period can now extend beyond June 30th



SBA New Loan Forgiveness Guidance: *Incurring vs. Paid*

- Payroll expenses incurred OR paid during the eight-week (no more than **\$15,385** per employee) or 24-week period (**we believe no more than \$46,154 per employee**) qualify for forgiveness
- Expenses can be paid after covered period ends if they are paid on or before next billing date
- Expenses incurred before covered period and paid during covered period can be included in forgiveness calculation



SBA New Loan Forgiveness Guidance: *Self-employed, Owner, Partner or Member Compensation*

- Annualized compensation for self-employed, owners, partners or members cannot exceed amount paid in 2019 to be eligible for forgiveness
- Annualized compensation for partners/members is capped at 92.35% of their 2019 net earnings from self-employment (reduced by expense deductions claimed under section 179, unreimbursed partnership expenses, and depletion from oil and gas properties)
- Forgiveness is not available for retirement or health insurance contributions for self-employed individuals and partners or members



SBA Loan Forgiveness Guidance: *Accounting for Wage/Salary Reduction*

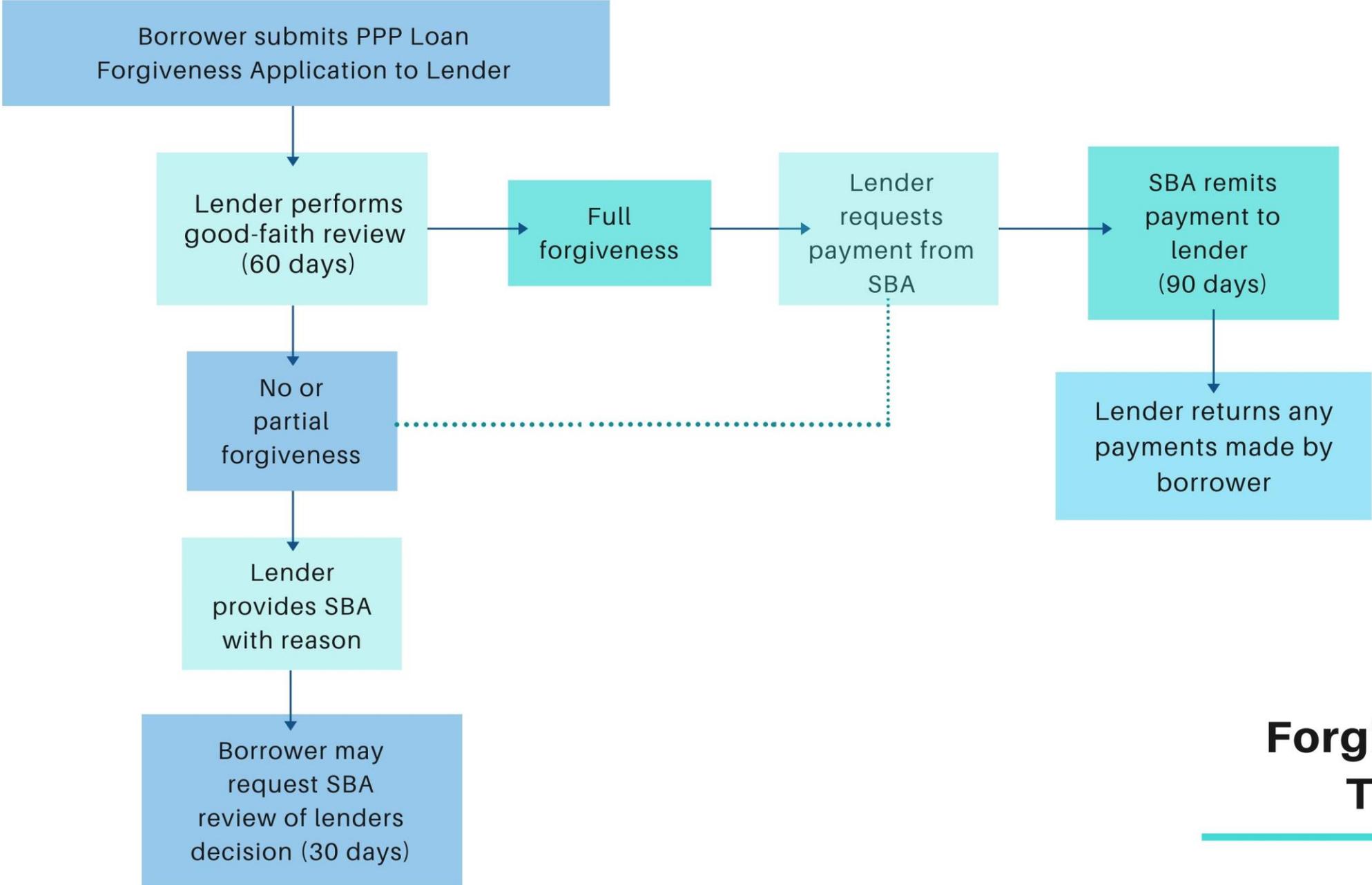
- Forgiveness will be reduced if salaries/hour wages for employees were reduced more than 25% during the covered/alternative covered period compared to average salaries/wages paid between 1/1/20 and 3/31/20
- If salaries/wages are restored to 2/15/20 levels on or before 12/31/20, the forgiveness calculation will not be reduced



SBA Loan Forgiveness Guidance: *How to Calculate FTEs*

- FTEs must be calculated based on a 40-hour work week
 - Prior to issuance of new guidance, some assumed calculations were based on a 30-hour work week
- Loan forgiveness will NOT be reduced if:
 - Borrower makes good faith written offer to rehire employees during covered/alt. covered period and the employee rejects the offer
 - An employee is fired for cause, voluntarily resigns or requests/receives reduced hours during covered/alt. covered period
 - Open roles created by above scenarios remain unfilled by new employees
 - Additional exceptions provided by PPP Flexibility Act

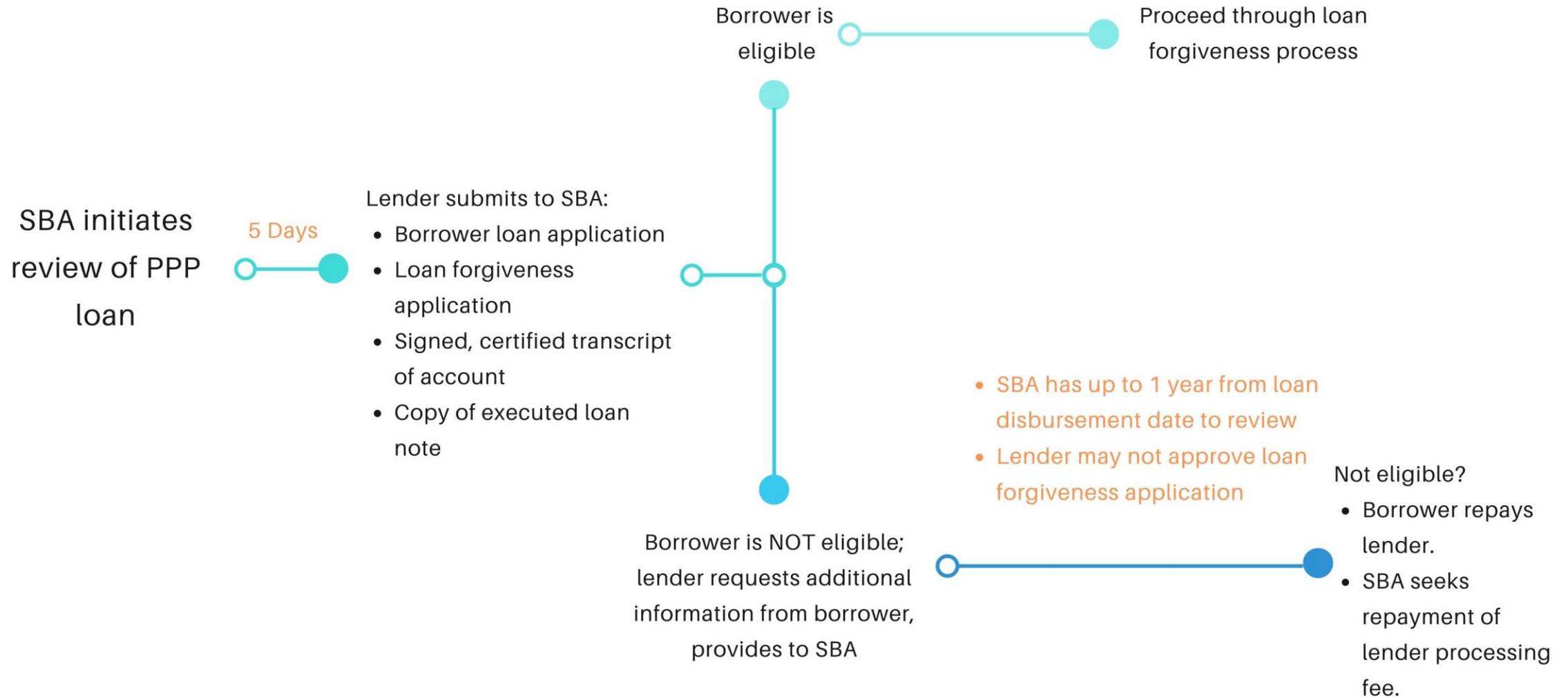
Walk-through of PPP Loan Forgiveness Application



Loan Forgiveness Timeline

SBA REVIEW OF PPP LOAN

Loans greater than \$2M or any loan at its discretion



Unresolved Issues with PPP Loan Forgiveness

- Can more than 8 or 24 weeks of payroll (paid and incurred compensation) be eligible for forgiveness?
- Will an employer who rehires FTEs or restores salaries to pre-COVID levels need to maintain the restored headcount and/or payroll for a specific time frame to qualify for forgiveness?
- Does the borrower need to enter FTEs as of the safe harbor date (December 31) for the one day, or the average for the pay period that includes the safe harbor date?
- What are “transportation costs” that are included in the definition of “covered utility payments”?



Unresolved Issues with PPP Loan Forgiveness (cont'd)

- Which benefit plan contributions qualify for inclusion? Can contributions be paid during the covered period even if they are for a prior year?
- Can employers with “semi-monthly” (twice per month, e.g., on the 15th and 30th) pay periods elect to use the “alternative covered period”? What if you have both semi-monthly and bi-weekly pay periods depending on type employees?
- Is there a deadline for filing a PPP Loan Forgiveness Application?
- SBA guidance on including employees of foreign affiliates may affect loan recipients’ eligibility.
- How and when is income is recognized related to loan forgiveness under GAAP?
- SBA will review loans over \$2 million (and possibly others), regarding their certification. What will that entail?



Time

Time your PPP loan funding, if possible, to receive funds immediately before pay date (bank must fund loan within 10 days of approval). Also consider timing of expenses such as rent, loan payments and utilities. You probably can not prepay but consider your timing to maximize use of PPP funds. **Include incurred expenses during the covered period that are paid after the covered period but before the next payroll/bill date.**

Separate

Establish a separate bank account to hold PPP loan funds and transfer them to operating accounts as the qualifying costs are paid based on payroll and other expenses in the correct percentages (no more than 40% for other expenses).

Track

Meticulously track, maintain and retain records on when and how funds are used (See list in SBA Forgiveness Application)

- Payroll and non-payroll expenses
- Employee records (to verify your FTE calculations)
- Bank statements, utility bills, lease agreements

Best Practices to Ensure PPP Loan Forgiveness

Calculate

Calculate FTEs **using 40-hour work week**. Determine if better to use shortcut method of .5 per non full-time employee.

Determine best covered period to give you the maximum payroll amount for forgiveness (schedule it out for both the covered period and alternative covered period).

Rehire/ Restore

Restore **number of employees to former level** (by **12/31/20**)

- Rehire laid off/furloughed employees (or hire new staff to fill open roles)
- Restore salaries reduced by more than 25% for staff making less than \$100,000 annually
- Document offers to hire back employees and employee response if they don't return, and report to state unemployment department.
- Document inability to locate replacement employees and restrictions on the business for employee and customer safety.

Best Practices to Ensure PPP Loan Forgiveness (cont'd)

Best Practices to Ensure Forgiveness (cont'd)

Leverage	Leverage scheduling of payroll, bonuses, utilities, profit sharing, pension contributions, interest, etc. during covered period to maximize forgivable loan amount
Pay	Pay owners a salary or self-employment income distributions of at least \$100,000 (\$46,154 over the 24-week covered period or \$15,385 over 8-week covered period) but that does not exceed annualized (24/52 or 8/52) compensation in 2019
Don't Prepay	Don't prepay loan if you need the funds (principal and interest payments are deferred for over ten months, then payable over next five years at 1% interest) but make sure you use loan funds for allowable purposes only
Get Help	Get professional help from a trusted CPA, your attorney or others to assist with forgiveness calculations and debt repayment decision.

PPP Flexibility
and Loan
Forgiveness
Q & A



How can WBL help?



- Check out WBL's [website](#) for:
 - Links to PPP loan and forgiveness calculators
 - Recorded webinar and slides
 - Blog posts and updated FAQs
 - SBA, Federal Reserve and other resources
- Contact WBL advisors who are available to answer questions, discuss concerns and develop strategies

Contact Us



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Thank You