Paycheck Protection Program 101

Understanding What Happens Next
What we’ll be covering today

• How the PPP loan works
• What to expect now that you have a PPP loan
• Tips on how to best position your loan forgiveness
Disclaimer

This presentation is intended to be used for general informational purposes only and is not intended and should not be construed as legal or tax advice.

Participation does not create any attorney-client or accountant client relationship.

Please consult an attorney or an accountant for advice and assistance with your specific legal questions and situation.
Today’s panelists include:

• Rachel Dollar, Partner at Law at Smith Dollar PC

• James Elliott, CPA and Team Leader at Elliott CPA Group Inc.
Use of Proceeds

• Can only use proceeds for certain purposes - document
• “Covered Period” for use of proceeds = 2/15/2020 and 6/30/2020
  • 75% payroll costs
    • e.g. gross pay (wages/salaries/commissions), tips, health insurance, state taxes
  • 25% can be used on other costs
    • Mortgage interest/debt interest
    • Rent
    • Utilities
    • Other allowable uses under 7(a)
      • Working capital

• Use of proceeds for other purposes can result in SBA call – or criminal/false claims act prosecution if intentional
Forgiveness

• Eight weeks beginning day funded
• Amounts incurred/paid for covered expenses
  • Employment
  • Rent
  • Mortgage Interest
  • Utilities
• Services began/contract in place before 2/15
Calculating Forgiveness

1) Track total eligible costs incurred and paid

2) Calculate payroll costs for forgiveness floor

3) Calculate any % decrease in FTE’s

4) Calculate any reduction in payroll > 25% of prior quarter

5) Calculate any adjustment because FTE’s and salary/wages were restored by June 30th
Calculating Forgiveness

Step 1

• Payroll costs
  • Compensation to employees including salary, wages, commissions or similar compensation (cash tips or the equivalent; payment for leave; allowance for separation or dismissal)
  • Payments for employee benefits, group health care coverage, insurance premiums, retirement contributions
  • Payment of state and local taxes assessed on the compensation of employees

• Mortgage interest on real or personal property or Rent under a leasing agreement (in effect prior to 2/15/2020)

• Utilities
  • Includes payment for electricity, gas, water, transportation, telephone, or internet access. (Service must have been established prior to 2/15/2020)

• Any EIDL to be refinanced
  • Refinance is at the discretion of the borrower
Calculating Forgiveness

Step 2
- Calculate payroll costs for forgiveness floor
  - 75% of eligible costs are to be used on payroll
  - If less than 75%, the forgiveness is reduced by the amount under 75%

Step 3
- Calculate any % decrease in FTEs from 8-week covered period
  - For example, a 15% drop in FTEs results in a 15% decrease in the amount of the loan forgiveness
Calculating Forgiveness

Step 4

• Calculate any reduction in payroll > 25% of prior quarter
  • For any employee who did not receive, during any single pay period during 2019, wages/salary at an annualized rate of pay more than $100K and also employees whose primary place of residency is outside the US
  • Was their payroll during the cover period more than 25% less that it was the previous full quarter? Reduce forgivable amount by the reduction that exceeds 25%

Step 5

• Calculate any adjustment because FTEs and salary/wages were restored by June 30
  • If “restore” criteria are met, steps 3 and 4 are ignored
FTE Reduction

- Divide average number of employees during 8 weeks following loan by average employees during lookback
- Employer chooses lookback period
  - February 15, 2019 to June 30, 2019
  - January 1, 2020 to February 29, 2020
  - Seasonal - Avg from 2/15 to 6/30/2019
- Calculate for both and use lowest
- Calculating
  - Full time employee = 1
  - Part time employees = 1 for each 30 hours
  - Calculate per pay period and then average
- Multiply forgiveness floor by reduction percentage
Assume: 3 employees each paid $3,000 per month  
PPP = $22,500 ($9,000 x 2.5)

• Rehire  
  • 2 employees at $3,000 per month  
  • 67% of workforce retained

• Use of proceeds  
  • $12,000 on payroll  
  • $10,500 rent/utilities

• Forgiveness  
  • $12,000 in payroll  
  • $4,000 rent/utilities (limited to 25% of forgiven amount)  
  • $16,000 Eligible for forgiveness  
  • Multiply by .67 (workforce reduction)  
  • Total forgiven = $10,720
Salary Reduction

• Employee by employee analysis
• Any employee (up to $100K) whose total salary wages reduced by 25% in eight weeks following funding
• Compared to “most recent full quarter during which employee was employed prior to” those 8 weeks.
• Dollar for dollar reduction (over 25%) in forgiveness floor
Assume: 3 employees each paid $3,000 per month
PPP = $22,500 ($9,000 x 2.5)

- Rehire
  - 3 employees at $2,000 per month
  - Reduction in salaries of 33%

- Use of proceeds
  - $12,000 on payroll
  - $10,500 rent/utilities

- Forgiveness
  - $12,000 in payroll
  - $4,000 rent/utilities (limited to 25% of forgiven amount)
  - $16,000 Eligible for forgiveness
  - Subtract $750 (75% = $2,250; $250 per employee)
  - Total forgiven = $15,250
Documentation for Employers

• Consider maintaining the PPP funds in a separate account
• Payroll Tax Returns (both federal and state)
• Compensation & FTEs
• Group health care benefits
• Retirement Plan benefits
• Documentation to include items such as cancelled checks, receipts, account statements, or other proof of payment
Documentation for Sole Proprietors & Self-Employed Individuals

- 2019 Form 1040, Schedule C
- If you have employees, payroll reports, healthcare, retirement, etc.
- Documentation to include items such as cancelled checks, receipts, account statements, or other proof of payment (note: the expenses must have been deducted on the 2019 Schedule C to qualify)
Questions

Use the “Live Event Q & A” field to the right of your screen.
Thank you

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