

Paycheck Protection Program Changes

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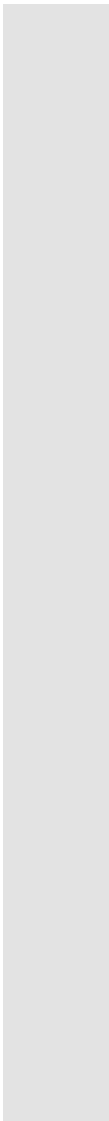
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Agenda

- Changes to the Paycheck Protection Program (PPP)
 - PPP loan forgiveness calculation example
 - Upcoming legislation
 - Client questions
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PPP Recap

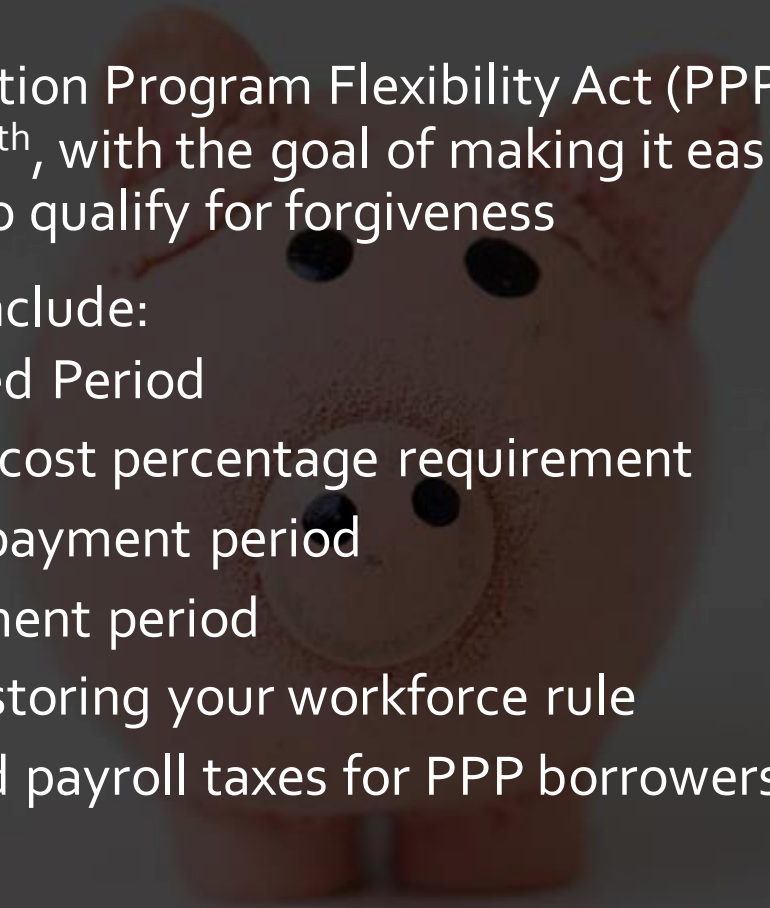
- Part of the CARES Act, The Paycheck Protection Program (PPP) authorized up to \$349 billion in forgivable loans to small businesses to pay their employees during the COVID-19 crisis
- These funds ran out in just 13 days
- Round two, signed into law April 24th, gave an additional \$310 billion to the PPP program
- On May 16th, the SBA released the PPP Loan Forgiveness application, which included detailed instructions and the calculation for loan forgiveness
- Congress passed the Paycheck Protection Program Flexibility Act on June 5th, a House bill which aims to ease restrictions on businesses seeking loan forgiveness under the Paycheck Protection Program
- There are currently still PPP loans available
- June 30th remains the last date on which a PPP loan application can be approved



Changes to the Paycheck Protection Program

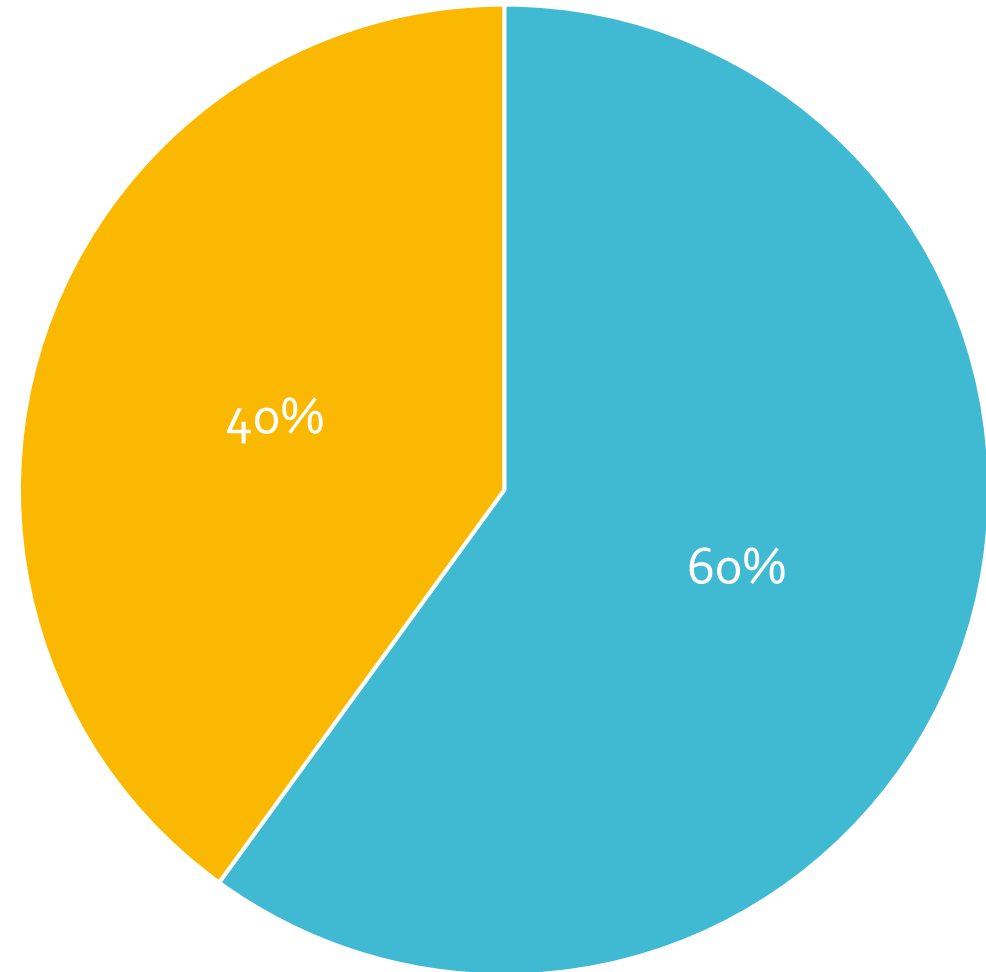
Paycheck Protection Program Flexibility Act

- The Paycheck Protection Program Flexibility Act (PPPFA) passed Friday, June 5th, with the goal of making it easier for PPP loan recipients to qualify for forgiveness
- The major changes include:
 - Extended Covered Period
 - Lowered payroll cost percentage requirement
 - Extended the repayment period
 - Extended deferment period
 - Exceptions to restoring your workforce rule
 - Allowed deferred payroll taxes for PPP borrowers



Lowered Payroll Costs Percentage Requirement

- Before the PPPFA, business owners had to spend 75% of loan funds on payroll costs
- Now that percentage is lowered to 60%
- Retroactive and applies to all PPP loans



■ Payroll costs ■ Non-payroll costs



Covered Period Extended

- Before the PPPFA, spending your loan funds had to occur within an 8-week Covered Period following the receipt of the funds
- Borrowers have 24 weeks after the loan origination date (or December 31st, 2020, whichever is earlier) to use their PPP funds
- Borrowers have the option to keep the original 8-week Covered Period if they already had their loan before PPPFA was enacted
- Retroactive and applies to all PPP loans

For payroll and other qualifying expenses during the Covered Period, does this refer to “paid” or “incurred?”

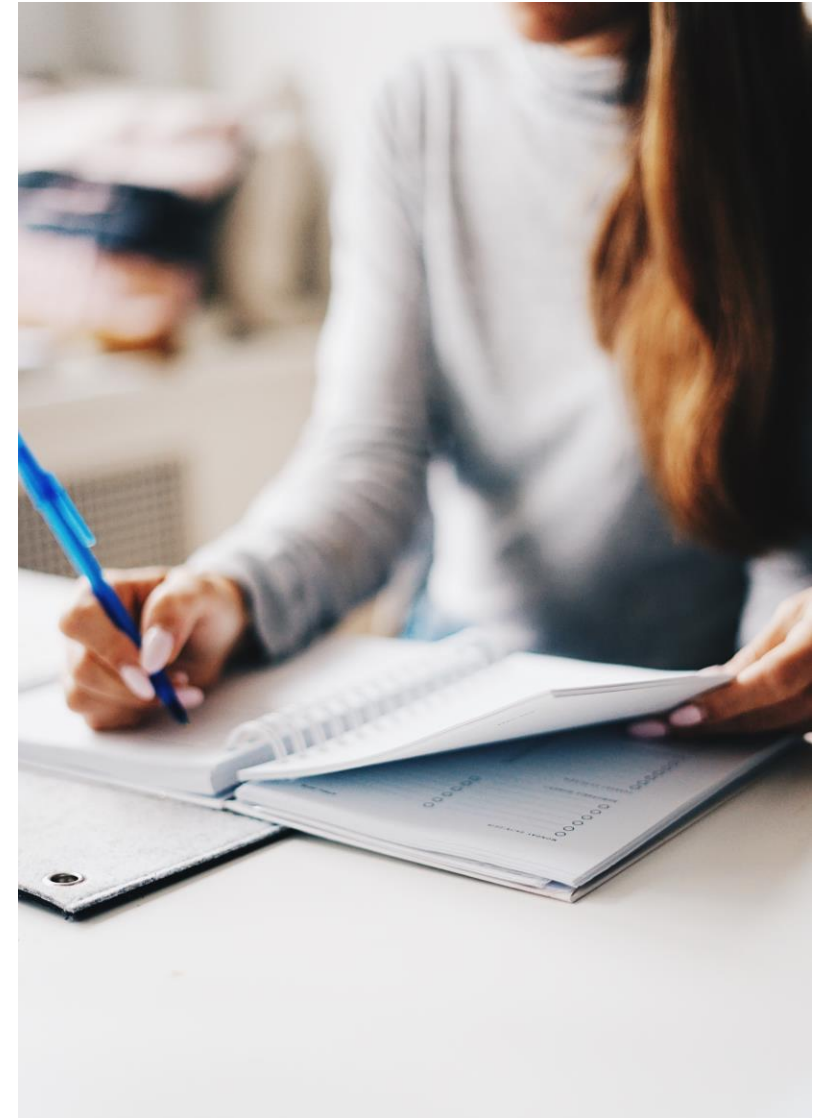
- Payroll costs must be **both paid and incurred** during the 24-week (168-day) Covered Period or the Alternative Payroll Covered Period
- Payroll costs are considered paid on the day checks are disbursed or an ACH credit transaction is distributed
- Payroll costs **incurred but not paid** during the last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if they are paid on the next regular payroll date

Alternative Payroll Covered Period

Borrowers may choose to spend their payroll costs during the Covered Period (beginning the day they receive their PPP loan funds)

OR

Borrowers can use the Alternative Payroll Covered Period
This allows borrowers to calculate their 24-week period on the **first day of their regular pay period**



Alternative Payroll Covered Period Example

- April 20 – Borrower receives their PPP loan funds (red)
- April 26 – First day of the borrower's pay period (yellow)
- Borrower may elect to use April 26th as the start of their Alternative Payroll Covered Period
- 8-week covered period (blue)
- 24-week covered period (green)
- This only applies to payroll costs

2020 Calendar

January 2020							February 2020							March 2020							April 2020						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
			1	2	3	4							1	1	2	3	4	5	6	7				1	2	3	4
5	6	7	8	9	10	11	2	3	4	5	6	7	8	8	9	10	11	12	13	14	5	6	7	8	9	10	11
12	13	14	15	16	17	18	9	10	11	12	13	14	15	15	16	17	18	19	20	21	12	13	14	15	16	17	18
19	20	21	22	23	24	25	16	17	18	19	20	21	22	22	23	24	25	26	27	28	19	20	21	22	23	24	25
26	27	28	29	30	31	23	24	25	26	27	28	29	29	30	31	26	27	28	29	30							

May 2020							June 2020							July 2020							August 2020						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
					1	2		1	2	3	4	5	6				1	2	3	4							1
3	4	5	6	7	8	9	7	8	9	10	11	12	13	5	6	7	8	9	10	11	2	3	4	5	6	7	8
10	11	12	13	14	15	16	14	15	16	17	18	19	20	12	13	14	15	16	17	18	9	10	11	12	13	14	15
17	18	19	20	21	22	23	21	22	23	24	25	26	27	19	20	21	22	23	24	25	16	17	18	19	20	21	22
24	25	26	27	28	29	30	28	29	30	26	27	28	29	30	31	23	24	25	26	27	28	29	30	31			

September 2020							October 2020							November 2020							December 2020								
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S		
			1	2	3	4	5					1	2	3	1	2	3	4	5	6	7				1	2	3	4	5
6	7	8	9	10	11	12	4	5	6	7	8	9	10	8	9	10	11	12	13	14	6	7	8	9	10	11	12		
13	14	15	16	17	18	19	11	12	13	14	15	16	17	15	16	17	18	19	20	21	13	14	15	16	17	18	19		
20	21	22	23	24	25	26	18	19	20	21	22	23	24	22	23	24	25	26	27	28	20	21	22	23	24	25	26		
27	28	29	30	25	26	27	28	29	30	31	29	30	27	28	29	30	31												

Is there a reason you would not try to file for forgiveness as early as possible?

Pros for filing early

- Loan will be removed from your balance sheet prior to year-end
- Less interest will accrue

Cons for filing early

- There may be more rule clarifications made that could impact your forgiveness amount
- Could create more taxable income

What happens
if you spend
less than 60%
on payroll
costs?

Statement on Monday, June 8th from SBA Administrator Jovita Carranza and Treasury Secretary Steven Mnuchin:

“If a borrower uses less than 60% of the loan amount for payroll costs during the forgiveness Covered Period, the borrower will continue to be eligible for partial loan forgiveness, subject to at least 60% of the loan forgiveness amount having been used for payroll costs.”

60% - Payroll Expenses

- Salary, wages, commissions or tips up to \$100,000 gross pay per employee on an annualized basis
- Employee benefits such as:
 - Vacation, parental, family, medical, or sick leave
 - Costs for group health care benefits like insurance premiums
 - Payment of any retirement benefits
 - Allowance for separation or dismissal
- State and local taxes assessed on employee compensation
- For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment, capped at \$100,000 on an annualized basis for each worker

40% Non-Payroll Expenses

- Mortgage interest payments (but not mortgage prepayments or principal payments)
- Rent payments
- Utility payments
- Interest payments on any other debt obligations that were incurred before February 15, 2020
- Refinancing a SBA EIDL loan made between January 31, 2020 and April 3, 2020

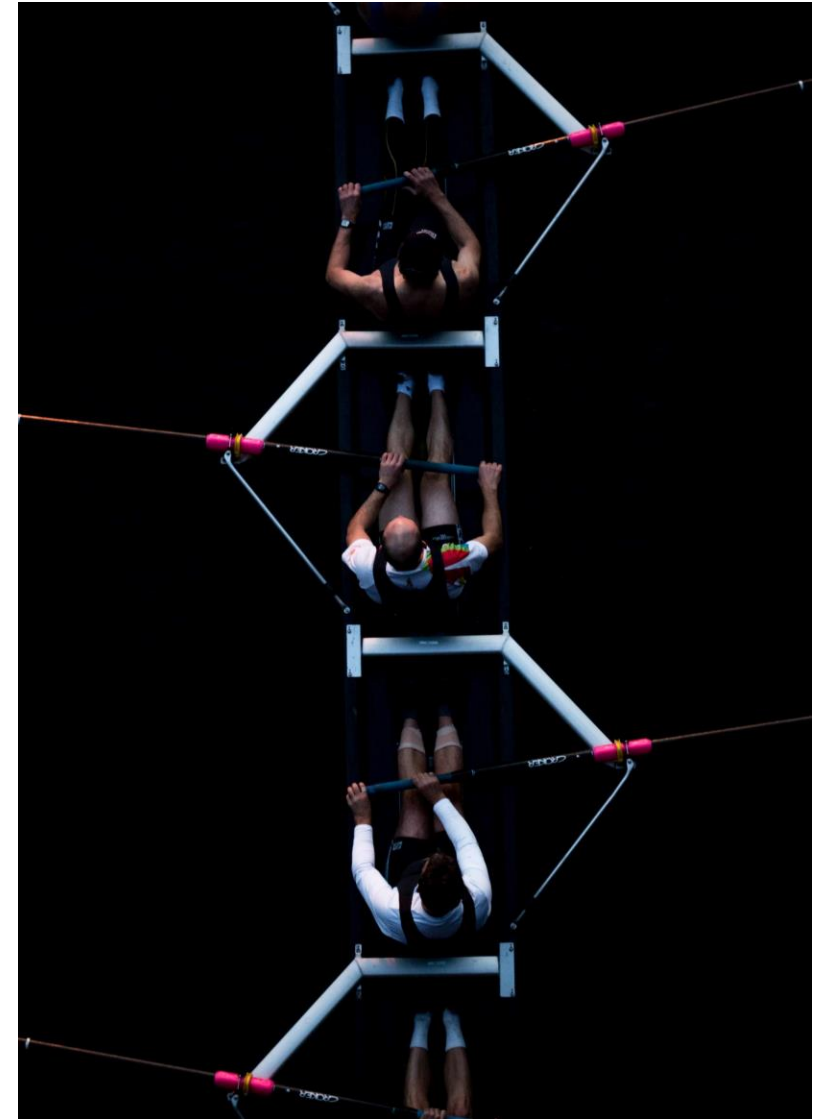
Do car loans, gas, insurance, and vehicle repairs qualify as non-payroll expenses?

- Car loan interest payments will count towards non payroll expenses.
- It is currently unclear whether gas and car repair will qualify. We recommend you speak with your SBA lender prior to using such expenses with your PPP loan proceeds.

Restoring Your Workforce

- Borrowers can now use the 24-week period to restore their full-time equivalent (FTE) workforce to pre-COVID-19 levels in order to obtain full forgiveness
- The new deadline to achieve this is Dec. 31* vs. the previous deadline of June 30
- Retroactive and applies to all PPP loans

**Will you be able to use the June 30th or December 31st date to restore your FTEs? What about something in between?*



Exceptions to the Workforce Restoration Requirement

- Borrowers can exclude workers if...
 - Workers they previously let go (as of Feb. 15, 2020) turned down good-faith offers of re-employment
 - They are unable to find qualified employees to replace them
 - They are unable to restore operations to Feb. 15, 2020 levels due to COVID-19 restrictions
 - During the covered period, an employee was fired for a valid cause, voluntarily resigned, or voluntarily requested and received a reduction of their hours
- Forgiveness amount will be reduced if FTE headcount is reduced and does not meet one of the exceptions mentioned above



Calculating Your Average Full-Time Employee Equivalent

- For every employee, enter their average number of hours paid per week, divide by 40, and round that number to the nearest tenth
- The maximum cap for each employee is 1.0
- You may use the simplified method:
 - Employees who work 40 hours or more each week are capped at 1.0
 - Employees who work fewer hours are capped at 0.5

FTE Calculation Example

Add your full-time FTE and your part-time FTE to get your total FTE figure

10 employees at 40 hours / week = 10 FTE

3 employees at 20 hours / week = 1.5 FTE

11.5 = Total FTE



FTE Reduction Safe Harbor

A borrower is exempt from the reduction in loan forgiveness based on a reduction of FTE if both of the following conditions are met:

- The borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020
- 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

**This is expected to be updated to December 31st. We are still waiting for the SBA to release an updated PPP Forgiveness Application since the PPPFA was passed.*

Deferment Period Lengthened

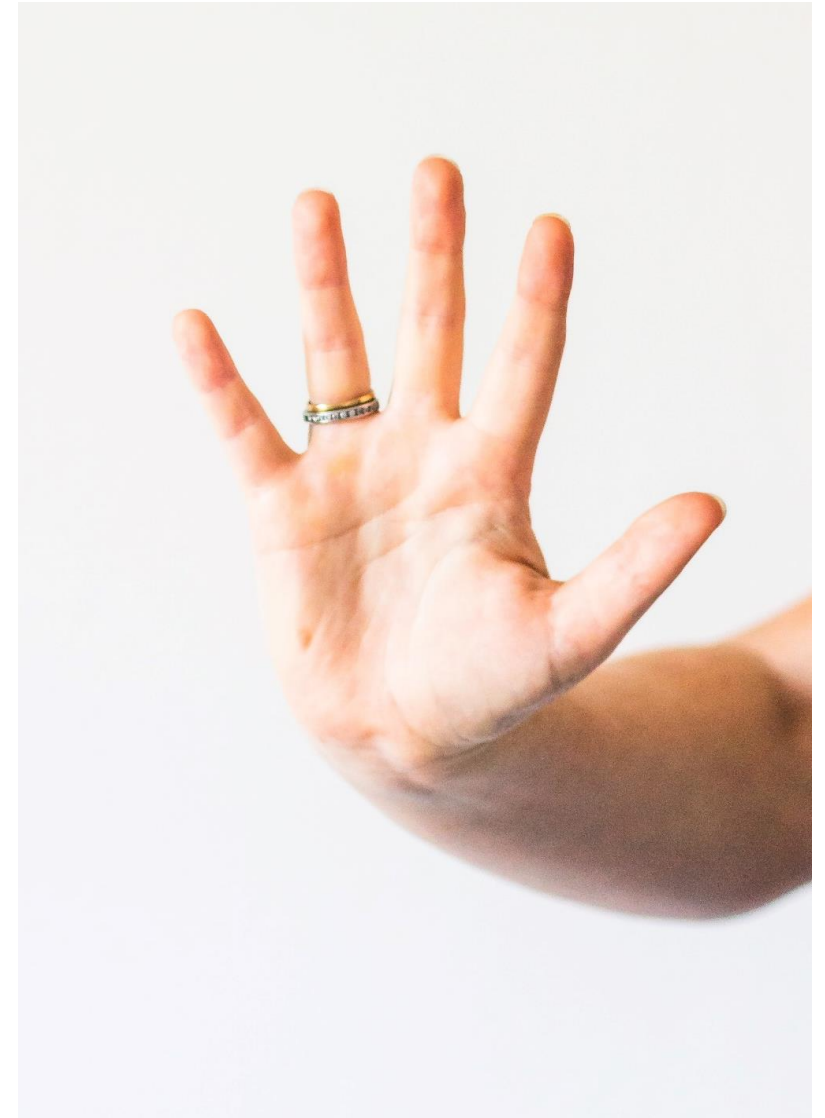
- Prior to the PPPFA, the payment deferment period was 6 months after following the date of disbursement of the loan
- PPPFA extends the deferral period for borrower payments of principal, interest, and fees on PPP loans to the date that SBA remits the borrower's loan forgiveness amount to the lender
- Interest will accumulate during the deferment period
- Retroactive to all PPP Loans

When does the
deferment
period start if a
borrower does
not apply for
forgiveness?

If the borrower does not apply for loan forgiveness, the deferment period will end 10 months after the end of the borrower's Covered Period. At that time they will start making payments of principal, interest and fees.

Extended Repayment Term for New PPP Loans

- PPPFA increases the repayment term from two years to five years
- This only applies to new PPP loans made after the PPPFA was enacted
- PPP loans that originated prior to the PPP Flexibility Act can be amended to reflect the longer term by mutual agreement between the borrower and their SBA lender
- The 1% interest rate was not changed



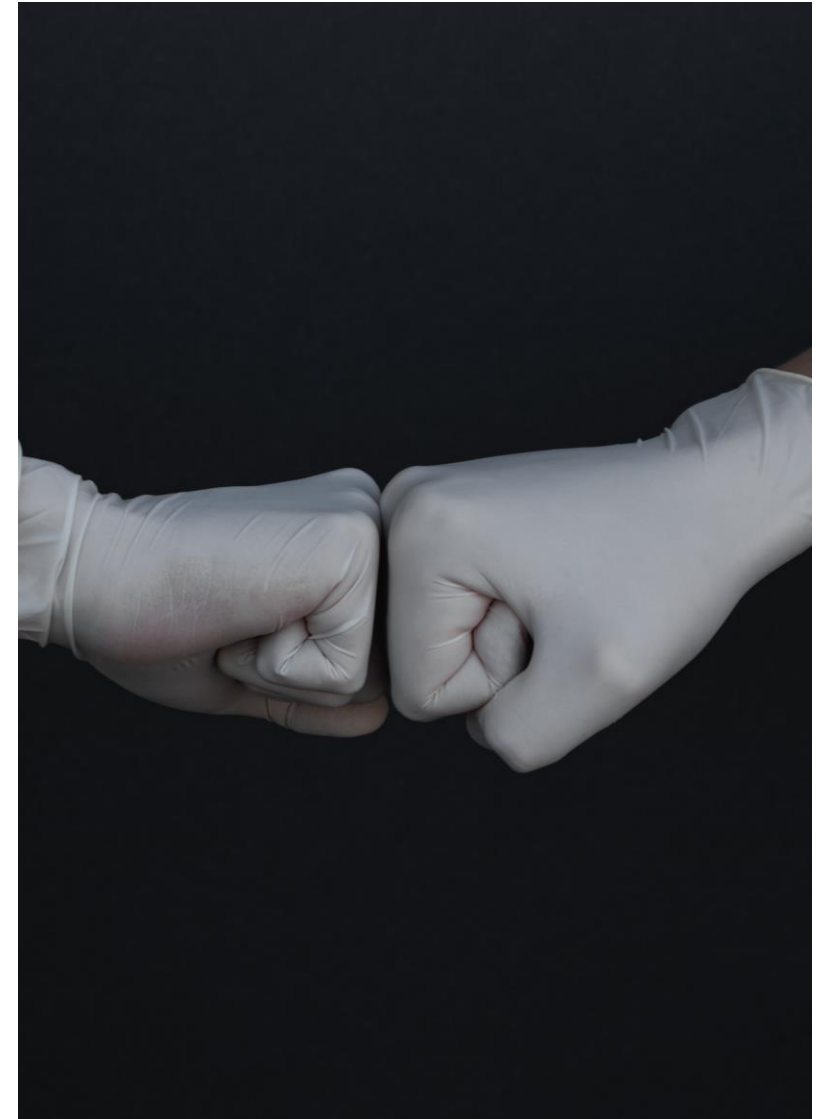
Payroll Tax Deferral

- The CARES Act prohibited PPP borrowers that received loan forgiveness to also utilize the CARES Act's payroll tax deferral
- PPPFA now allows businesses to delay paying payroll taxes even if they received PPP loan forgiveness
- Payroll tax deferral is applicable to an employer's portion of Social Security wages paid from Mar. 27 thru Dec. 31, 2020
- Employers must deposit 50% by Dec. 31st, 2021 and the remaining 50% by Dec. 31st, 2022 or face penalties



Good Faith Certification

- All borrowers must certify in good faith that “current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”
- Any borrower that, together with its affiliates, received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.



It was reported that those that received above \$2MM in PPP loans will undergo additional scrutiny regarding forgiveness. What will that additional scrutiny look like, when will it occur, and what is the likelihood that an essential business that has continued to operate using a \$2MM+ PPP loan will experience forgiveness?

- When you apply for a PPP loan, you give the good faith certification that the proceeds were necessary
- Keep your original documentation that you submitted to your SBA lender when you applied for your loan showcasing your need for a PPP loan
- If SBA determines that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request, SBA will seek repayment of the outstanding PPP loan balance and will inform the lender that the borrower is not eligible for loan forgiveness
- We still need more clarification on how will the SBA determine that "current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant"



Payroll Forgiveness Portion of the Application Calculation

<u>Payroll and Nonpayroll Costs</u>		
Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):		<u>\$144,308</u>
Line 2. Business Mortgage Interest Payments:		<u>-</u>
Line 3. Business Rent or Lease Payments:		<u>\$40,000</u>
Line 4. Business Utility Payments:		<u>\$15,692</u>
<u>Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions</u>		
Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):		<u>0</u>
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:		<u>\$200,000</u>
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):		<u>1.0</u>
<u>Potential Forgiveness Amounts</u>		
Line 8. Modified Total (multiply line 6 by line 7):		<u>\$200,000</u>
Line 9. PPP Loan Amount:		<u>\$200,000</u>
Line 10. Payroll Cost 75% ^{60%} Requirement (divide line 1 by 0.75 ^{0.60}):		<u>\$240,513.33</u>
<u>Forgiveness Amount</u>		
Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):		<u>\$200,000</u>



Upcoming Legislation

HEROES Act

- A \$3 trillion stimulus bill called the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act is currently in the Senate
- Many of the originally proposed HEROES amendments to the PPP program are already in the PPP Flexibility Act
- The bill hopes to provide:
 - \$1 trillion to cover pay for first-line workers and teachers
 - \$200 billion for the creation of a Heroes' Fund, which would provide hazard pay to essential workers
 - Extend unemployment benefit protections from the end of July through January 2021
 - \$75 billion for COVID-19 supplies and contact tracing measures
 - \$175 billion to help families pay their rent, mortgage, and utility payments
 - Extend the employee retention tax credit, allowing employers to more easily keep staff on the payroll
 - Provide a second round of direct stimulus checks for Americans

Chances of the HEROES Act Passing

- The bill has passed the House of Representatives and has stalled in the Senate
- The Senate won't vote on another stimulus bill until later this month or even as late as early July
- It is likely that we will see one last stimulus bill, but it will be smaller than the proposed HEROES Bill

Questions



Will this new extended Bill allow coverage of PPE supplies we bought, such as masks, disinfectant, hand sanitizer, etc.?

Are CAM charges forgivable?

If we extend our covered forgiveness period to 12 weeks, are we still limited to an 8-week equivalent of \$15,385 total for employees who earn more than \$100K per year?

Can 1099 employees be included in gross payroll if they did not apply for a PPP loan themselves?

Typically our project managers receive their bonuses at the end of year. Are we permitted to prorate these bonuses so they are part of gross payroll?

Client Questions

Thank You!

We'd love your feedback

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