



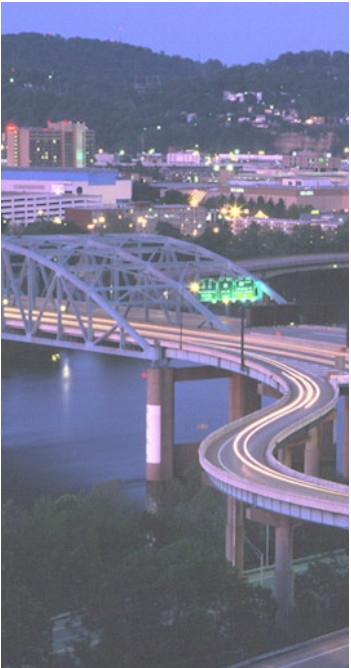
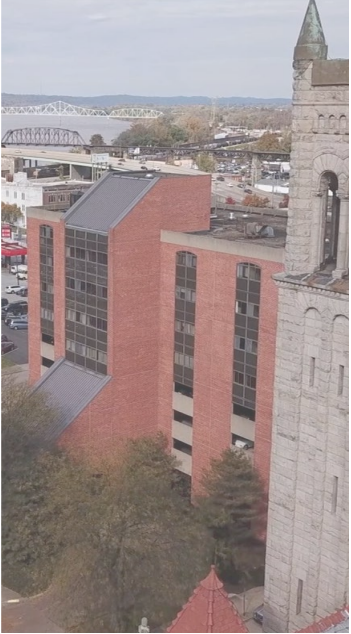
**Suttle &  
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Certified Public Accountants

# Paycheck Protection Plan Forgiveness Update

Suttle & Stalnaker, PLLC

June 2, 2020



# Topics to be Discussed

- Paycheck Protection Program Overview
- Forgiveness Application Overview
- 75/25 Allocation/Test
- Payroll Calculation/Issues
- FTE Defined/Discussed
- Nonpayroll Costs Included
- Random Items/Questions



# PPP Overview

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- Opened April 3, 2020 to much confusion.
- Second funding came April 27, 2020, which we understand is still available.
- Program designed to fund Payroll related expenses, and application was based on 2.5 months of those costs.
- Total funding was \$310 billion from first round.

# PPP Overview

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- Application was easy to complete
  - Yet banks requested different information, resulting in confusion if you tried to talk to others to resolve questions
- Treasury released FAQs, which provided guidance on how to apply
  - And eventually, the “be sure you qualify” oversight came out

# PPP - Forgiveness Application

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Released on May 18, contains 11 pages of information, definitions and actual forms to complete.

- Application for PPP funding was 4 pages
- <https://www.sba.gov/document/sba-form--paycheck-protection-program-loan-forgiveness-application>

*Tony Nitti, a well respected commentator, noted if you couldn't complete the first few questions, you were in trouble. Ironically, the first few questions include “PPP Loan Number”, which few of us probably know.*

# PPP - Forgiveness Application

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## Due Date of Filing Forgiveness Application

- No specific due date noted. You do have to report FTE as of June 30, 2020, and you have a 60 day deferral period before the 1<sup>st</sup> payment is due.
- Based on that – the due date should be around August 30, 2020.

## Supporting Documents

- While you had to submit your backup for your funding application, you do not have to submit anything with your forgiveness calculation
- Documentation needs to be kept for 6 years

## Audit?

- The Treasury has advised that loans over \$2M will be audited. There is a possibility that any loan can be reviewed.

# PPP - Forgiveness Application

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## Application includes:

1. Definitions and line by line instructions – Pages 1-2
2. Basic information and calculation – Page 3
3. Representations and Certifications – Page 4
4. Schedule A instructions and tables – Pages 5-9
5. List of Documents to send as support – Page 10
6. Demographic information (optional) – Page 11

Schedule A: where the calculations occur for Payroll amounts, FTE numbers, and non-payroll amounts.

# Let's Get into the Details...

## 75/25 Allocation/Test

Generally, at least 75% of the loan proceeds must be spent on payroll costs. No more than 25% of the loan proceeds can be spent on rent, utilities, and mortgage interest (this assumes that all rental agreements, utilities, and mortgages were in place prior to 2/15/2020).

## Payroll costs include the following:

**Salary, wages, commissions and tips**—up to \$100,000 annualized for each employee (\$15,384 for the 8-week period), including hazard pay and bonuses.

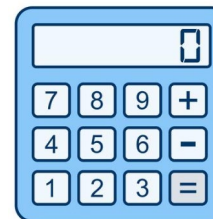
**Employee benefits**, including paid leave, severance pay, insurance premiums and retirement benefit.

**State and local taxes assessed on pay** (in West Virginia, this includes State Unemployment Tax, but does not include City Service Fees).

Payroll costs for **sole proprietors and independent contractors** include wages, commissions, income or net earnings from self-employment (up to \$100,000 annualized - \$15,384 for the 8-week period).



# Payroll Calculations



Payroll is calculated on a gross basis, with no adjustment for employee or employer FICA / Medicare or income taxes required to be withheld from the employee.

Payroll costs exclude compensation to any employee whose principal place of residence is outside of the United States. In addition, any paid sick leave or family leave covered under the Families First Coronavirus Response Act is also excluded as reimbursement is provided through refundable tax credits.

*Example: Assuming the forgivable amount is not reduced due to a reduction in headcount of full-time employees or cuts in salaries and wages of more than 25% for any employee who made less than \$100,000 in 2019.*

## What it would look like:

Type	Amount – 8 weeks
Wages paid	\$235,826
Health insurance	\$23,695
WV Unemployment	\$325
Total payroll cost	\$259,846
75% Gross Up Total Allowed Forgiveness	\$346,461
25% Allowed Other	\$86,615
This loan was probably	about \$352,000

# Payroll Considerations



## What to Include:

Cash Compensation – the sum of payments of any compensation with respect to employees that is:

- Salary, wage, commission or similar compensation
- Payment of cash tip or equivalent
- Payment for vacation, parental, family, medical or sick leave
- Allowance for dismissal or separation

## Not included:

- Compensation over \$100k, or \$15,384 for 8 weeks
- Compensation to an employee who lives outside the US
- Sick or family leave for which a credit was taken

# Payroll Considerations



## Payroll Costs – Paid versus Incurred

- “Borrowers are generally eligible for the payroll costs paid and payroll costs incurred during the appropriate period.”
  - Based on this language, it appears that the SBA will allow both payroll paid during the appropriate period for work prior to the covered period, and for payroll incurred within the 8 weeks, even if paid after the covered period.
  - This appears to indicate that borrowers may be forgiven for more than 8 weeks of payroll originally anticipated, although individuals will still be capped at \$15,385 based on annual \$100k cap.

# Payroll Considerations

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## Alternative Payroll Period

An alternative payroll covered period is allowed, if your payroll is biweekly or more frequent, you can choose an 8 week (56 day) period that begins on the 1<sup>st</sup> day of the pay period that begins after you received your PPP monies.

- You can also include the payroll covering the last days inside the 8 week period, if it is paid on the next regular pay date.

# Payroll Considerations

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## Other Costs Included:

- Health insurance
- Vision insurance
- Dental insurance
- State/Local taxes paid – WV Unemployment Tax most common

# Full Time Equivalent – FTE - Issues

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Full Time Equivalent is a large part of the forgiveness calculations. If you maintain equal FTE in the testing periods, your exposure to an overall reduction in forgiveness is minimized.

## Step 1 of the Process – Determine your Covered Period

- ✓ Covered Period for forgiveness purposes is defined as the 8 week period from the date of loan fund disbursement
- ✓ Remember, you may have elected the alternative date for your 8 week period based on your first payroll after the proceeds were received.

# Full Time Equivalent – FTE – Issues

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## Step 2 of the Process – Determine your FTE's during the Covered Period.

- ✓ An FTE is defined as 40 hours per week.
- ✓ If an employee works more, you only get one
- ✓ Round to the nearest 10<sup>th</sup>
- ✓ There is an simplified method

# Full Time Equivalent – FTE – Issues

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## FTE Calculation Example

- *ABC Co. secured a PPP loan on April 10, 2020. ABC Co. incurred sufficient costs eligible for forgiveness over the next 8 weeks.*
- *For the 8-week period beginning April 20, ABC 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.*



# Full Time Equivalent – FTE – Issues

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For the 8-week covered period, ABC 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 ABC 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*

# Full Time Equivalent – FTE – Issues

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## Step 3 of the Process – Compare the FTEs during the Covered Period to the FTEs in any of the following Test Periods:

- Avg. number FTE between 2/15/2019 and 6/30/2019
- Avg. number FTE between 1/1/2020 and 2/29/2020
- Seasonal employers may use any 12 week period between May 1 , 2019 and September 15, 2019

# Full Time Equivalent – FTE – Issues

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## Example:

ABC Co. – remember they had 3.7 FTEs during the Covered Period

- Avg. number FTE between 2/15/2019 and 6/30/2019 – 6.4 FTE
- Avg. number FTE between 1/1/2020 and 2/29/2020 – 6.4
- Thus,  $3.7\text{FTE}/6.4\text{FTE} = 57.813\%$  - This would be the tentative loan forgiveness. So, if the loan was for \$100,000 and you had met all other requirements, only \$57,813 would be forgiven.
- But wait, THERE IS MORE!

# Full Time Equivalent – FTE – Issues

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## Step 4 of the Process – Look for the FTE Safe Harbor

- ✓ Think of Monopoly – Get out of Jail Free Card
- ✓ You will need the Average FTE for February 15, 2020 through April 26, 2020 and the Average FTE for the pay period that includes February 15, 2020.
- ✓ If the FTE for the first period is less than the period including February 15, 2020, then the borrower must compare the FTE for the February 15, 2020 payroll to the FTE as of June 30, 2020.
- ✓ If the June 30, 2020, FTE count is higher, then the Safe Harbor is met and NO reduction in the forgiveness!

# Non-Payroll Costs

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## Rent

The application included the language “lease agreements for real or personal property in force before February 15, 2020”.

This opens the door to include leases for personal property such as vehicles and office machinery.

## Mortgage Interest

Interest only on business mortgages

## Utilities

Utilities are what you would normally define in that category, including electric, telephone, cell phone, water, gas, etc.

Transportation is also included in the language, which leads us to believe that fuel costs may be allowed, but we are hoping for final guidance on that point.

# Additional Information

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- **Related party leases:** Current guidance leads us to believe that related party rental payments are allowed, as long as the lease was in place prior to 2/15/2020.
- **Compensation cap:** Comp is limited to \$100k/employee. So bonuses are allowed in the calculation, but no comp can be included in the forgiveness calculation that exceeds the \$100k/year, or \$15,384 for the 8 weeks.
- **Deductibility of expenses paid by PPP funds:** This is a pending issue that we need more guidance on.
- **FAQ:** the listing on the Treasury website is full of information to help understand

# Thank You!



**Tricia Clark**



**Wally Suttle**



**Miri Hunter**



**Ryan Mink**

*Please note that information on PPP forgiveness continues to be issued. We will plan to update you again as we get more information.*

*Please submit questions to: [Jmiesner@suttlecpas.com](mailto:Jmiesner@suttlecpas.com)*

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