Our Webinar Will Begin Shortly

#WeGotThisWA

Webinar Series

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Business Health Trust
Welcome!

#WeGotThisWA Series: What Every Business Should Know about PPP Loan Forgiveness

April 21, 2020
Our event partners:

Business Health Trust

THE CHAMBER

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COMCAST BUSINESS
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• Recording- will be available on event page tomorrow

• None of this presentation is intended to give legal or financial advice but to provide context, understanding, and examples only
Webinar Objectives

• Overview and examples of what is allowable costs under PPP
  • How to maximize PPP Loan forgiveness
  • How to calculate PPP loan forgiveness
• Understanding of what might reduce forgiveness
PPP was intended to:

• Keep people paid at their normal hours and wages
• Keep people’s benefits in tact
• Keep the lights on (literally)

PPP was NOT intended to:

• Pay owners or highly compensated employees more
• Pay down debt of the business

Note: Guidance is still fluctuating and being refined (until April 26th)
What Every Business Should Know About PPP Loan Forgiveness

SEATTLE METROPOLITAN CHAMBER OF COMMERCE WEBINAR

Lewis Horowitz & Eric Kodesch, Lane Powell
Background for PPP Loan

- Provides relief in the form of the federal government paying certain costs (Covered Costs) of a small business over an Eight-Week Period
  - All $349 billion allocated for this has been taken
  - Congress is looking at allocating an additional $250 billion
- PPP program starts when an applicant secures loan from a lender in an amount equal to 2.5x average monthly payroll costs
- PPP loan forgiven to the extent the business uses the loan for Covered Costs over the Eight-Week Period after the bank makes first disbursement
- Reductions in employee headcount or salary may reduce forgiveness
Eight-Week Period and Covered Costs

- Eight-Week Period for forgiveness begins with first disbursement from the bank
- Forgiveness applies to the followings Covered Costs:
  1. Payroll Costs
  2. Mortgage Interest
  3. Rent
  4. Utilities
Covered Costs: Payroll Costs

- Includes employee vacation, parental, family, medical and sick leave
- Not reduced by federal income tax withholding or employee portion of FICA
- Capped at $100k per employee, but the cap applies only to salary and other cash compensation – not to amounts paid by borrower for benefits (e.g. health care, retirement plan contributions)
- Statute applies this to “costs incurred and payments made”
  - Payments made during the Eight-Week Period for work done prior to the Eight-Week Period appear to qualify
  - Costs incurred during the Eight-Week Period but paid after (because of timing of payroll) appear to qualify
- Treatment of commissions and bonuses made on accrual basis remains unclear
Example 1 – Payroll Costs

Eight-Week Period starts April 20 and ends June 14

- **Organization pays normal wages**

  Payroll paid on April 30 includes compensation from before April 20
  Payroll is paid out on June 15 with normal payroll schedule

  All employees earn under $100,000 annualized
  (or $15,384 total over the eight weeks)
Example 1 – Payroll Costs Analysis

PPP period starts April 20 and ends June 14

➢ Organization pays normal wages
   Payroll is paid out on June 15 with normal payroll schedule

All employees earn under $100,000 annualized
(or $15,384 total over the eight weeks)

Analysis

It appears that payroll costs include full amount paid on April 30 and amount incurred, but not paid, through June 14
Example 2 – Payroll Costs

PPP period starts April 20 and ends June 14

Organization pays “hazard pay” to individuals

Regular wages of $5,000 over the period (no hours or wage reduction)

Hazard pay of $3,000 over the period

Total wages, tips, bonuses, wages, salaries, hazard pay, etc. of $8,000 over eight weeks
Example 2 – Payroll Costs Analysis

PPP period starts April 20 and ends June 14

- **Organization pays “hazard pay” to individuals**
  
  Regular wages of $5,000 over the period (no hours or wage reduction)
  
  Hazard pay of $3,000 over the period
  
  **Total wages, tips, bonuses, wages, salaries, hazard pay, etc. of $8,000 over eight weeks**

**Analysis**

It appears that all of these costs qualify as payroll costs
Covered Costs: Mortgage Interest

• Includes any interest or indebtedness incurred in the ordinary course of business before February 15 that is a mortgage on real or personal property

• Principal payments or prepayments are excluded

• Will be hard to prepay interest; unclear if CARES Act prohibits forgiveness for late payments of interest

• Hopefully SBA will not attempt to limit definition of mortgage to real property – no suggested limitation in CARES Act

• Appears to apply only to payments made during the Eight-Week Period
Example – Mortgage Interest

PPP period starts April 20 and ends June 14

- Organization has a line of credit that it pays interest on
  - Organization has a mortgage on building where its warehouse is located and pays interest on this mortgage
  - Organization has a lease on a copy machine, which it pays interest on

Which payments are allowed uses and may be subject to forgiveness?
Example – Mortgage Interest Analysis

PPP period starts April 20 and ends June 14

- Organization has a line of credit that it pays interest on
- **Organization has a mortgage on building where its warehouse is located and pays interest on this mortgage**
- Organization has a lease on a copy machine, which it pays interest on

**Analysis**

Borrowers will need more clarity as CARES Act outlines “allowable uses” to include “interest on any other debt obligation that were incurred before the period covered” – and then Section 1106 of the Act doesn’t include this item. Could be that these uses are allowable but not forgivable. More guidance will be needed.
Covered Costs: Rent

• Generally includes rent under a lease agreement in force before February 15

• Nothing in CARES Act appears to disqualify rent paid to a related person, provided lease was in force before February 15

• Unclear how SBA will treat late payment of past-due rent or prepayments of future rent

• Appears to apply only to payments made during the Eight-Week Period
Example - Rent

PPP period starts April 20 and ends June 14

- Organization pays rent for April on April 24
- Organization pays rent for May on May 1
- Organization pays rent for June on June 1

Which payments are allowed uses and may be subject to forgiveness?
Example – Rent Analysis

PPP period starts April 20 and ends June 14

- Organization pays rent for April on April 24
- **Organization pays rent for May on May 1**
- **Organization pays rent for June on June 1**

**Analysis**

More guidance is needed, but it appears that the rents paid on May 1 and June 1 is fully included if Covered Costs, but not any of the April 1 rent.
Covered Costs: Utilities

- CARES Act limits utilities to:
  - Electricity
  - Gas
  - Water
  - Transportation
  - Telephone
  - Internet Access

- Service must have begun before February 15
- Appears to apply only to payments made during the Eight-Week Period
Example - Utilities

PPP period starts April 20 and ends June 14

- Payment of electricity bill
- Payment of gas bill (for the building)
- Payment of gas for workers driving around
- Payment of internet provider
- Payment of cell phone bills for the organization
- Payment of land lines for the organization
- Payment of cloud data storage for the organization

Which payments are allowed uses and may be subject to forgiveness?
Example – Utilities Analysis

PPP period starts April 20 and ends June 14

- Payment of electricity bill
- Payment of gas bill (for the building)
- Payment of gas for workers driving around
- Payment of internet provider
- Payment of cell phone bills for the organization
- Payment of land lines for the organization
- Payment of cloud data storage for the organization
75%-25% Split Required by SBA

- SBA added a requirement that no more than 25% of forgiveness amount of any PPP loan can be attributable to non-payroll costs.
- This means that amounts spent on these other Covered Costs in excess of 25% of the PPP loan will not be forgiven.
- There may be push back on this as nothing in CARES Act favors any one of the four Covered Costs when computing forgiveness.
- It is unclear how this regulatory requirement works with statutory reductions in the amount forgiven.

**Computational problem:** With no reduction in headcount or compensation, borrowers will be below 75%.

  - SBA based 75% on its calculation that borrowers receive “a loan amount 75% of which is equivalent to eight weeks of payroll (8 weeks / 2.5 months = 56 days / 76 days = 74% rounded up to 75%)”
  - However, 56/76 equals 73.68%
Example: 75%-25% Split Required by SBA

PPP period starts April 20\textsuperscript{th} and ends June 14\textsuperscript{th}

- Borrows $100,000 in PPP
- Pays $50,000 on payroll costs
- Spends $40,000 in rent and utilities

\textbf{Analysis:}

Example. X Co.’s loan forgiveness is limited to $66,667 ($50,000/75%)

$50,000 of payroll costs + $16,667 of rent and utilities

$33,333 of PPP loan remains outstanding

($23,333 of rent and utilities not included in forgiveness + unused funds)
How Much Can Be Forgiven?

Forgiveness Capped at PPP Loan Amount

• The amount forgiven cannot exceed the principal amount of the PPP loan
• This likely means that every borrower must pay at least two months of interest (computed at 1% per annum)
• Cap also avoids questions that could arise when the forgivable amount exceeds the principal amount of the loan.
Reduction in Forgiveness for Reduction in Number of Employees

• Reduction = sum of Covered Costs x ratio of average # of FTEs during Eight-Week Period to average # of FTEs from 2/15-6/30, 2019 OR average # of FTEs from 1/1-2/29, 2020 (borrower’s election)

• Special rules apply for seasonal workers

• CARES Act appears to apply reduction to sum of all Covered Costs before taking into account the absolute cap

• Unclear how reduction applies with respect to 75%-25% split required by SBA
Reduction in Forgiveness for Reduction in Salary

- CARES Act requires businesses to calculate the Salary Reduction Amount, if any, for each employee who received, during a single pay period in 2019, wages or salary of $100k or less on annualized basis
- This indicates that there is no Salary Reduction Amount for cutting wages or salaries for those who make over $100k
- No reduction related to employees who did not work for the business in 2019
- Salary Reduction Amount = excess, if any, of reduction during Eight-Week Period of over 25% of total salary/wages of employee during Q1 2020
- Estimate that wages could be reduced by ~40% without having Salary Reduction Amount
- Salary reduction could make it difficult to achieve complete loan forgiveness due to 75%-25% split requirement
Example – Salary Reduction Amount

- Employee earns a salary of $52,000 per year
- Employee received $13,000 in Q1 2020
- Employee normally would have received $8,000 during the Eight-Week Period

If the employee earned $7,000 instead of the $8,000 normally, is there a reduction in forgiveness?

**Analysis:**

**No. The salary reduction during the 8 weeks is $1,000.**

25% of the Q1 2000 compensation is $3,250. **Because the reduction was less than $3,250, no Salary Reduction Amount**
Example – Salary Reduction Amount Analysis

• As noted in the last slide, the employer would have a Salary Reduction Amount only to the extent that the reduction during the Eight-Week Period exceeded $3,250

• Such a salary reduction represents a decrease of a little over 40%, without triggering any Salary Reduction Amount

• We would not be surprised if the SBA interprets the CARES Act in a manner that does not allow such large salary reductions
Impact of Rehiring

- Forgiveness amount “determined without regard” to reductions in forgiveness resulting from headcount/salary reduction during Eight-Week Period, *if* employer eliminates headcount/salary reduction by June 30
- Technically, this rule would allow an employer that fires all employees to avoid a reduction in forgiveness if the employer hires everyone back at original pay for only one day (June 30)
- We expect that SBA will provide additional rules about this
Example for Increasing Payroll Costs for Employees Earning Less Than $100k

- Employers have more flexibility for employees making under $100k:
  - Hazard Pay
  - Bonuses (retention)
  - Accelerate holiday bonuses now (which is probably when employees need it more)
  - Increasing rates
  - Pay a 2020 bonus instead of a 2021 raise
  - For new employees, pay a signing bonus, with corresponding reduction in salary
  - Consider paying advances on future wages
  - Payout of vacation balances (thus reducing future liability) in addition to wages earned (under $100k annualized cap)
Increasing Payroll Costs for All Employees

• A key planning strategy will be to increase payroll costs, especially by accelerating future anticipated payments

• Because of the $100k cap, strategies applicable to all employees will increase benefits

• For example:
  • Employer contributions to a 401(k) plan
  • Employer contributions to HSA accounts
  • Paying for internet costs of workers who are remote
Maximizing Forgiveness & Layoffs

A Company Already Had Layoffs

Should people be re-hired immediately and use PPP funds even if folks don’t have work to be doing?

• Any delay will make it difficult to satisfy the 75% for payroll costs requirement

• However, employers should think about whether the employees will want to come back or stay with the increased unemployment benefits

• Also, think through the implications of hiring everyone back for eight weeks to then lay them off again at the end of PPP
Interaction with Deferral of Social Security Tax

• All employers can defer payment of the employer portion of social security taxes otherwise due between March 27 and December 31
  • Half of the deferred taxes are due by December 31, 2021
  • Other half due by December 31, 2022

• This is basically an interest-free loan

• Pursuant to recently issued IRS guidance on this deferral:
  • PPP loan forgiveness *only* prevents deferral of payment obligations subsequent to “the date the lender issues a decision to forgive the loan” (Forgiveness Date)
  • The employer portion of social security taxes deferred prior the Forgiveness Date remain deferred

• **Planning Consideration:** delay forgiveness to the end of 2020 to maximize the interest-free loan
Thoughts on Documentation

• More guidance will be needed for this

• The PPP Loan agreement likely will discuss, but in broad terms:
  • Federal and state payroll tax filings
  • State unemployment filings
  • Cancelled checks
  • Payment receipts
  • Transcripts of accounts

• Generally, the types of documents needed in the past to support a tax deduction for the payments
Where to Go From Here

First, tune into the next webinar after guidance is published April 26th

Step 1: Decide Your Parameters

1) How much are you OK with not being forgivable?
   (loan over 2 years at 1%)
Where to Go From Here

First, tune into the next webinar after guidance is published April 26th

**Step 2: Do the Math**
*(Based on step 1)*

1) How much of your total loan needs to be on payroll (75%)
2) What is your payroll right now?
3) Do you need to boost compensation or rehire?
4) Calculate what your non-payroll costs likely are (rent, utilities, mortgage interest, etc.)
### Payroll Protection Program ("PPP") Loan Calculations

**Not for Sole Proprietors or Independent Contractors**

<table>
<thead>
<tr>
<th>A</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trailing 12 Months Or 2019</strong></td>
<td><strong>Running Total</strong></td>
<td><strong>#DIV/0!</strong></td>
</tr>
<tr>
<td>Aggregate payroll costs (Step 1 of SBA Rule)</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>Compensation paid to an individual employee in excess of an annual salary of $100,000 that was included in line 3 (Step 2 of SBA Rule)*</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>Compensation paid to employees living outside of the U.S. (incorporated in amount in Step 1 of SBA Rule)</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>Payroll Cost**</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>Monthly Payroll Cost (Step 3 of SBA Rule)</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>2.5 x monthly payroll cost (Step 4 of SBA Rule)</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>Outstanding amount of an EIDL made between January 31, 2020 and April 3, 2020, less the amount of any EIDL grant (Step 5 of SBA Rule)</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>Cap on PPP loan</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
<tr>
<td>PPP Loan</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
</tr>
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</table>

### Calculation of Forgivable Portion of PPP Loan

(SBA WILL Provide More Guidance)

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>8-Week Period From Receiving PPP Loan</strong></td>
<td><strong>Running Total</strong></td>
<td><strong>#DIV/0!</strong></td>
<td></td>
</tr>
<tr>
<td>Payroll Costs</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
<td></td>
</tr>
<tr>
<td>Cash compensation of an individual employee in excess of an annual salary of $100,000 that was included in line 20**</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
<td></td>
</tr>
<tr>
<td>Payroll Costs**</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
<td></td>
</tr>
<tr>
<td>Mortgage Interest paid</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
<td></td>
</tr>
<tr>
<td>Rent paid</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
<td></td>
</tr>
<tr>
<td>Utilities paid</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
<td></td>
</tr>
<tr>
<td>Total eligible for forgiveness under Section 1102(3)**</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
<td></td>
</tr>
<tr>
<td>SBA Rule 2: Limit on non-payroll costs</td>
<td>$ - $ - $ -</td>
<td>$ - $ - $ -</td>
<td></td>
</tr>
</tbody>
</table>

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Utilize the calculator by Lane Powell
Step 2: Start Tracking & Comparing Payroll Costs

Test 1 - Showing no Wage Reduction:
1) Create a tracking document (or pre-made report) that shows payroll costs by employee for the covered period
2) Calculate weekly payroll based on Q1 2020 limitation to compare to the 8-week period of payroll costs (75% of Q1 2020 wages)

Test 2 – Showing no FTE Reduction:
1) Calculate your total FTEs for the 8 weeks
2) Calculate your total FTEs (see slide 28) to use in any reduction test
<table>
<thead>
<tr>
<th>Name</th>
<th>Total Pay for Q1 2020</th>
<th>Over $100k?</th>
<th>Target Pay</th>
<th>Weekly amount</th>
<th>Calculation: Total Pay Q1 multiplied by 75%</th>
<th>Payroll April 15th</th>
<th>Payroll 2 DATE</th>
<th>PAYROLL 3 DATE Payroll 4 DATE</th>
<th>Total</th>
<th>Result</th>
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</thead>
<tbody>
<tr>
<td>Example 1</td>
<td>$3,774.84</td>
<td>NO</td>
<td>2831.13</td>
<td>235,927.5</td>
<td>1887.42</td>
<td>497</td>
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<td>497</td>
<td>REDUCTION NEEDED</td>
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<tr>
<td>Example 2</td>
<td>$7,980.00</td>
<td>NO</td>
<td>5095</td>
<td>498.75</td>
<td>3990</td>
<td>1397.23</td>
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<td>1397.23</td>
<td>REDUCTION NEEDED</td>
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<tr>
<td>Example 3</td>
<td>$2,479.67</td>
<td>NO</td>
<td>1859.7525</td>
<td>154,979.375</td>
<td>1239.835</td>
<td>N/A - not working in 8 week period, terminated</td>
<td></td>
<td></td>
<td>0</td>
<td>REDUCTION NEEDED</td>
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<tr>
<td>Example 4</td>
<td>$7,435.28</td>
<td>NO</td>
<td>5576.46</td>
<td>484.705</td>
<td>3717.64</td>
<td>1279.95</td>
<td></td>
<td></td>
<td>1279.95</td>
<td>REDUCTION NEEDED</td>
</tr>
<tr>
<td><strong>Total FTE calculation for 8 week period</strong></td>
<td></td>
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<tr>
<td>FTE calculation</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total FTEs from 2/15 - 6/30, 2019</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Hours</td>
<td>21213</td>
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<td>FTE calculation</td>
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<table>
<thead>
<tr>
<th><strong>Total FTE calc Jan/Feb 2020</strong></th>
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</thead>
<tbody>
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<td>Total Hours</td>
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<tr>
<td>FTE Calculation</td>
<td>21</td>
</tr>
</tbody>
</table>
Where to Go From Here

Step 3: Gather Other Checks/Invoices

Proactively save copies of invoices and checks for other eligible payments
Step 4: Make It Easy for the Bank

With your supporting documents, create a summary sheet showing:

- The amount of the loan
- The amount requesting forgiveness
- What portion of forgiveness is payroll (and that it is 75% or more of the total that you are requesting forgiveness on)
- What other expenses were paid (total and outline)
- Show FTE calculation, showing you didn’t reduce FTEs*
- Show Wages calculation, showing you didn’t reduce wages*

*or indicating how it reduced the requested amount
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Download our PPP Spreadsheet to calculate estimated loan forgiveness
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