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Paycheck Protection Program Forgiveness Insights

May 19, 2020

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Agenda

- INTRODUCTIONS
- NEW GUIDANCE
- FORGIVENESS CASE STUDY
- Q&A

PPP Program materials, calculations, definitive guidance, and interpretations subject to change. Information presented today reflects our understanding of the PPP Loan Forgiveness Application as of May 18, 2020.

PPP Program Rules

Key Points for Lenders

Following the CARES Act, the U.S. Department of the Treasury has released (as of 5/18/20):

- 12 Interim Final Rules
- 47 answers to Frequently Asked Questions
- PPP Forgiveness Application

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

<https://www.congress.gov/bill/116th-congress/house-bill/748/text>

<https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>

Paycheck Protection Program (PPP) – new information being released daily

New Updates

Most recent guidance provided by the U.S. Treasury:

- FAQ #31 & #37 – additional borrower certification related to adequate sources of liquidity
 - *“ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.”*
 - *“Lenders may rely on a borrower’s certification regarding the necessity of the loan request.”*
- FAQ #39 & #46 – loans in excess of \$2 million will be reviewed by the SBA/Treasury
 - For perspective, loans in excess of \$2 million represent 0.8% of loan count but comprise 23.6% of total borrowings
 - *“If SBA determines in the course of its review 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.”*
- FAQ #40 – restoration of headcount
 - *“The interim final rule will specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee’s rejection of that offer must be documented by the borrower.”*

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New Updates

- PPP loan forgiveness expenses are not deductible against income. Notice 2020-32 (<https://www.irs.gov/pub/irs-drop/n-20-32.pdf>)
 - *“(up to the aggregate amount forgiven) because such payment is allocable to tax-exempt income. Consistent with the purpose of section 265, this treatment prevents a double tax benefit.”*

Covid Impacts Summary				
	Pre Covid Outlook	Covid Impact - WITHOUT PPP	Covid Impact - PPP TAX FREE	Covid Impact - PPP TAXABLE
Revenue	\$ 6,000,000	3,500,000	3,500,000	3,500,000
COGS	3,600,000	2,100,000	2,100,000	2,100,000
Gross Profit	2,400,000	1,400,000	1,400,000	1,400,000
<i>Gross Profit Margin</i>	40.0%	40.0%	40.0%	40.0%
*PPP Payroll Costs	800,000	800,000	800,000	800,000
*PPP Non-Payroll Costs	200,000	200,000	200,000	200,000
Other Expenses	150,000	150,000	150,000	150,000
Pre-tax Net Income	1,250,000	250,000	250,000	250,000
Taxes @ 30%	(375,000)	(75,000)	(75,000)	(75,000)
Net Income	\$ 875,000	\$ 175,000	\$ 175,000	\$ 175,000
<i>Post-Tax Net Income Margin</i>	14.6%	5.0%	5.0%	5.0%
<i>PPP Proceeds (Gross / Net)</i>		-	166,667	116,667
After Tax Cash Impact	\$ 875,000	\$ 175,000	\$ 341,667	\$ 291,667
<i>Margin</i>	14.6%	5.0%	9.8%	8.3%
PPP Proceeds	\$ 166,667			

Paycheck Protection Program (PPP) – new information being released daily

New Updates

- Two weeks after deadline, SBA releases an 11 page PPP forgiveness application on 5/15/2020
 - *What has been clarified?*
 - *Election available for alternative covered period – but it only applies to payroll costs*
 - *Clarification to “incurred and paid”*
 - *Maximum compensation for any individual is \$15,385 ($\$100k * 8/52$)*
 - *Maximum compensation for owner-employees, GPs, self employed to lower of \$15,385 or 8/52 of 2019 compensation*
 - *Mortgage interest, lease and rent expense on real **and personal** property*
 - *FTE calculation*
 - *Use a 40 hour work week for FT*
 - *Simplified approach (FT = 1 FTE, less than FT = .5 FTE)*
 - *Calculated with weekly averages*
 - *OT doesn't count to higher FTE*
 - *Voluntary resignation, retirement, termination for cause, or voluntary request for reduced hours will not impact forgiveness*
 - *Safe harbor forgiveness if headcount as of 2/15/20 is restored by 6/30/20*

Paycheck Protection Program (PPP) – new information being released daily

New Updates

- Two weeks after deadline, SBA releases an 11 page PPP forgiveness application on 5/15/2020
 - *What is still ambiguous?*
 - *No mention of related party rents and leases being disallowed*
 - *Are the following considered eligible payroll costs?*
 - *Guaranteed payments*
 - *Bonuses*
 - *Are the following considered eligible non payroll costs?*
 - *Cell phones*
 - *Mileage reimbursement and company vehicle fuel costs*
 - *What is the deadline for submitting the forgiveness application?*

Calculator Walkthrough

Widget Company 123, LLC

- a) Manufacturer 20% revenue reduction due to Covid
- b) Minor disruption to headcount
- c) 22 FTEs
- d) All full time
- e) 12 employees earn in excess of \$100,000
- f) 10 employees receive wage reductions of 33%
- g) Rent is \$60,000
- h) Utilities are \$15,000
- i) PPP loan proceeds \$400,000

Alternative Calculation

- a) Payroll lower to ~\$265,000
- b) Rent higher to \$100,000

Paycheck Protection Program (PPP) – a case study

Forgiveness Conclusion

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):	\$ 307,729
Line 2. Business Mortgage Interest Payments:	\$ -
Line 3. Business Rent or Lease Payments:	\$ 60,000
Line 4. Business Utility Payments	\$ 15,000

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Restrictions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	\$ 11,078
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	\$ 371,652
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	0.91

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):	\$ 337,865
Line 9. PPP Loan Amount:	\$ 400,000
Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):	\$ 410,306

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	\$ 337,865
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Paycheck Protection Program (PPP) – a case study

FTE Restoration Safe Harbor

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):	\$ 307,729
Line 2. Business Mortgage Interest Payments:	\$ -
Line 3. Business Rent or Lease Payments:	\$ 60,000
Line 4. Business Utility Payments	\$ 15,000

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Restrictions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	\$ 11,078
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	\$ 371,652
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	1.00

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):	\$ 371,652
Line 9. PPP Loan Amount:	\$ 400,000
Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):	\$ 410,306

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	\$ 371,652
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Paycheck Protection Program (PPP) – a case study

Restore Wages

Payroll and Nonpayroll Costs

Line 1.	Payroll Costs (enter the amount from PPP Schedule A, line 10):	\$ 307,729
Line 2.	Business Mortgage Interest Payments:	\$ -
Line 3.	Business Rent or Lease Payments:	\$ 60,000
Line 4.	Business Utility Payments	\$ 15,000

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Restrictions

Line 5.	Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	\$ -
Line 6.	Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	\$ 382,729
Line 7.	FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	1.00

Potential Forgiveness Amounts

Line 8.	Modified Total (multiply line 6 by line 7):	\$ 382,729
Line 9.	PPP Loan Amount:	\$ 400,000
Line 10.	Payroll Cost 75% Requirement (divide line 1 by 0.75):	\$ 410,306

Forgiveness Amount

Line 11.	Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	\$ 382,729
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Paycheck Protection Program (PPP) – a case study

Alternative Calculation Results

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):	\$ 265,845
Line 2. Business Mortgage Interest Payments:	\$ -
Line 3. Business Rent or Lease Payments:	\$ 100,000
Line 4. Business Utility Payments	\$ 15,000

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Restrictions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	\$ -
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	\$ 380,845
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	1.00

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):	\$ 380,845
Line 9. PPP Loan Amount:	\$ 400,000
Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):	\$ 354,461

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	\$ 354,461
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Any Questions?



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COVID-19 Impact Considerations

Other Information

Elliott Davis COVID-19 Resource Center

Visit our COVID-19 Resource Center for helpful information related to business continuity, tax updates, and other key topics to ensure you are prepared to navigate this unprecedented issue

<https://www.elliottdavis.com/covid19/>