

**Paycheck Protection Program: Loan Forgiveness**

Kelsey Vatsaas and Jordan Smith

6/3/2020

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- This presentation is for educational purposes only. It should not be construed or relied on as legal advice or to create any client, advisory, fiduciary, or professional relationship between you and CLA. You should consult with your legal counsel if you have questions or concerns regarding your eligibility to participate in the Paycheck Protection Program (PPP) or other PPP-related issues.
- This presentation considers guidance provided by the SBA and US Department of the Treasury through 5/27/2020. Additional guidance is being provided on a regular basis, please refer to the US Department of the Treasury website (<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>) for recent updates.



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**Presenters**



**Jordan Smith, CPA**  
Principal – Construction Outsourced Business Operations



**Kelsey Vatsaas, CPA, MBA**  
Principal – Nonprofit Outsourced Business Operations



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**CLA Create Opportunities**

**Our purpose**  
CLA exists to create opportunities — for our clients, our people, and our communities.

**Our promise**  
We promise to know you and help you.

**CLA family culture**  
One family working together to create opportunities.

**Strategic advantages**  
Deep industry specialization  
Seamless, integrated capabilities  
Proven resource for private businesses and owners, inspired careers.

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**Facts: Our Clients**

<b>2,100+</b> clients engaging global capabilities	<b>20,000+</b> clients engaging outsourcing capabilities	<b>3,500+</b> clients served by CLA Wealth Advisors
<b>4,200+</b> clients engaging employee benefit plan capabilities	<b>8,700+</b> nonprofit and government organizations served	<b>89,000+</b> private households served
<b>1,500+</b> financial institutions served	<b>50,000+</b> private businesses served	<b>8,300+</b> health care organizations served

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**Recent Updates**

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**Updates**

- 5/13/2020 – IFR issued to re-size loans for partnerships and seasonal employers
- 5/15/2020 - Forgiveness application released
- 5/18/2020 – Final (extended) deadline for Safe Harbor return of funds
- 5/28/2020 – House passed HR 7010 – Paycheck Protection Flexibility Act
  - Extends 8 week period to 24 weeks to spend the funds on forgivable costs
  - Lowers from 75% to 60% the portion of funds spent on payroll costs
  - Extends term period for loans from 2 to 5 years
  - Allows companies with PPP forgiveness to delay payroll tax payments
- As of 6/2/2020; Senate rumored to be taking up the House bill this week
- As of late May, over 4.5 million PPP loans have been approved totaling \$510.5B. Over \$135B remains for lending

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**Allowable Uses**

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Investment Advisory services are offered through Citicorp Securities Wealth Advisors, LLC, an SEC registered investment advisor

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**Allowable Uses**

**Payroll Costs**

Salaries, wages (includes PTO, sick pay, separation payments, etc.) – limited to \$100,000 annualized	Group health care benefits	Retirement benefits	Employer portions of state/local payroll taxes
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**Common Questions:**

- FICA is **excluded**
- FFCRA credits **excluded**
- Bonus/hazard pay **includable**
- Self-insured/funded medical plan costs - **unclear**

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**Allowable Uses – Non-Payroll**

- Interest on mortgage obligation → Includable for forgiveness
- Rent [related party still unclear] → Includable for forgiveness
- Utilities → Includable for forgiveness
- Interest on other debt obligations → *Not included in forgiveness calculation*

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**Forgiveness**

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**Basics of Forgiveness**

- Project now to consider operational decisions that may impact (rehires, furloughs, pay reductions)
- Forgiveness may be all, partial, or none
- Loan forgiveness application (Form 3508) to be completed by Borrower
- No set time by SBA for submitting by borrower
  - Consider holding off given additional guidance or changes likely
  - Loan agreement may have deadline

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### Payroll Costs

- For bi-weekly or more frequent payrolls - **Alternative Payroll Covered Period (APCP)** starting first day of first pay period following PPP loan disbursement
- Submit on **Schedule A** and **Schedule A Worksheet**
- Flexibility to include costs **incurred during** CP or APCP and **paid on or before next regular payroll date**
- Potential to include payroll costs incurred prior to the CP or APCP **if paid during the CP or APCP**
- Subject to \$15,385 max during the 8-week period
- Non-cash payroll costs (healthcare, retirement, ER state taxes) must be paid during CP or APCP

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### Non-Payroll Costs

- Flexibility to include costs incurred during the CP if **paid on or before next regular billing date**
- No prepayments of future interest on mortgage debt, but unclear about rent and utilities expenses
- Potential to include additional non-payroll costs incurred prior to the CP **if paid during the CP**
- Max forgiveness amount of 25% for non-payroll costs

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### Forgiveness – Items to Consider

Lowest of the three amounts calculated below

#1 How much did the entity spend on allowable costs? (lines 1 -4)	#4. What was the PPP loan amount? (line 9)	#5. Was enough of that spending on payroll? (25% limit on non-payroll) (line 10)
#2. Did the entity maintain wages at least 75% of prior quarter? (excludes high earners) (line 5, Schedule A, line 3)		
#3. Did the entity maintain FTEs? (includes re-hires thru 6/30) (line 7, Schedule A, line 13)		
#6 Did entity receive EIDL advance (up to \$10,000)?		

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### Wage Reduction Test

- Measured using average salary or hourly wage
  - (CP or APCP compared to Q1 2020)
- Only applies to employees during the CP or APCP (i.e., no penalty for non-rehires) and < \$100k in 2019
- No penalty for reduction in hours
- Safe harbor if wages not reduced or reinstated as of June 30, 2020, when compared to Feb 15, 2020
- Forgiveness reduction (if any) applies to full 8-week period, regardless if employee there for the entire period

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### 2 Methods for Full-Time Equivalent Employees

Standard Method	Simplified Method
<ul style="list-style-type: none"> <li>• Full-time employee (40+ hours / week) = 1 FTE</li> <li>• Part-time employee = aggregate # of hours / 40</li> <li>• Calculate for each pay period and use an average for the CP or APCP</li> </ul>	<ul style="list-style-type: none"> <li>• Full-time employee (40+ hours / week) = 1 FTE</li> <li>• Part-time employee = 0.5 FTE (regardless of hours)</li> <li>• Calculate for each pay period and use an average for the CP or APCP</li> </ul>

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### EIDL Advance (Up to \$10,000)

Reduction Test #5	
Did Entity Receive an EIDL Advance (up to \$10,000)?	
Result	Yes
Reduction	\$ 5,000
Detailed Calculation	
EIDL Advance	\$ 5,000

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### Inconsistencies with Law and Rules

- **Payroll Costs:**
  - Paid, but Not Incurred (comp in arrears)?
  - Are Prepayments Allowed?
- **Nonpayroll Costs:**
  - Paid, but Not Incurred (costs in arrears)?
  - Are Prepayments Allowed?
- **Self-Employed:** Does Forgiveness Include Employee Costs and Nonpayroll on Schedule C?
- **Simplified FTE Safe Harbor:** If no reduction in employees or wages between January 1, 2020 and the end of CP

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### How CLA Can Help...

- Consultation on Forgiveness and other PPP matters
- PPP Forgiveness Calculator
- Assistance with Forgiveness Calculation and assembly of Forgiveness Package
- Outsourcing of Forgiveness Tracking and Calculation
- Working capital planning using CLA Intuition

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### CLA Forgiveness Packages

What: fixed fee, easy to understand packages of services to help you!

All include access to our Forgiveness Tool to help you streamline all of the information and fill out the forgiveness application!

	Forgiveness Packages*			Forgiveness Enterprise \$5,000
	Introductory \$1,000	Premium \$2,500	Custom Variable	
<b>Tools</b>	✓ Access to CLA Forgiveness Tool	✓ Access to CLA Intuition® 2.0	✓ Access to CLA Intuition® 2.0	✓ Access to CLA Forgiveness Tool
<b>Consultation</b>	✓ Consultation meetings to assist with forgiveness tool (estimated 2-3 hours)	✓ Consultative meetings to assist with forgiveness tool (estimated 4-6 hours)	✓ As needed	✓ Consultation meetings to assist with CLA Forgiveness Tool, review of client prepared model (estimated 6-9 hours)
<b>Forgiveness Package</b>	✓ Package prepared for the lending institution to support PPP loan forgiveness	✓ CLA will perform review of the final client's prepared forgiveness package (estimated 4-6 hours)	✓ Full support preparing the forgiveness tool and expediting of the impact on local forgiveness	✓ CLA will provide assistance to management as they work with their lender (estimated 2-3 hours)
		✓ If requested, CLA will provide assistance to management as they work with their lender		✓ CLA will perform review of the final client prepared forgiveness package (estimated 4-6 hours)

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**Resources**

- Treasury Website –  
<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
- SBA Website –  
<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>
- CLA's COVID Relief Center  
Bi-weekly Livestreams  
<https://www.claconnect.com/COVID19>
- US Chamber of Commerce  
<https://www.uschamber.com/coronavirus>

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