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Maximizing Your Paycheck Protection Program Loan Forgiveness

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For Today's Discussion

What comes next for small businesses that have received the PPP loan and how to prepare your business for the forgiveness process

Updates on PPP Program

- The PPP Program ended Saturday 8/8/2020
- Congress is discussion option for a “second round” and blanket forgiveness on loans under \$150,...
- As of 8/6/2020 5,158,938 loans had been issued for a total of \$523,421,099,011
- **Overview of the program**
- **Forgiveness Requirements**
 - Payroll Requirements
 - Other Eligible Expenses Requirements
- **Safe Harbor Rules**
- **Recordkeeping**
- **Maximizing Forgiveness by Expense Type**
- **Live Q&A**

Program Overview

- The PPP is a forgivable loan from The SBA if certain specific requirements are met
- You will apply for forgiveness directly through your PPP lender
- Your loan term starts the day PPP funds are deposited into your bank account
- You can apply for forgiveness once you use all your funds; you don't have to wait until the end of your loan term
- You must apply for forgiveness within 10 months of the end of your loan term
- Loans (or portions of loans) that are not forgiven have the following terms:
 - Loans funded prior to June 5, 2020: 2 year term at 1% with a 6-mo deferral
 - Loans funded after June 5, 2020: 5 year term at 1% with a 10-mo deferral

Forgiveness Requirements

- **Payroll Expenses are considered:**
 - Amounts paid to W2 employees (taxes are withheld from paychecks) up to the first \$100,000 in compensation with principal residence in The US
 - Salary, Hourly Wages, Commission or Similar, Cash Tips or Equivalent , payments for Leave, Sick Time, Paid Time Off
 - Employee Benefits including group healthcare and retirement plans
 - Payments of state and local taxes
 - Owner compensation replacement
 - For 8-week terms: 8/52 of 2019 Schedule C Line 31 Net Profit
 - For 24-week terms: 2.5 times monthly net profit from 2019 Schedule C line 31

Forgiveness Requirements

- **Other Eligible Expenses are considered:**
 - Rent or Lease payments for contracts in effect prior to Feb 15, 2020
 - Any amounts that are included in a lease agreement, such as monthly rent, sales tax, CAM charges, etc
 - Utilities for contracts in effect prior to Feb 15, 2020
 - Water & Sewer
 - Electricity
 - Telephone (including cell phone)
 - Internet
 - Gas/Propane
 - Transportation
 - Interest portion only for mortgages or fixed loans (SBA, Eqt, Auto, Etc)

FAQ's

- **What if I have an EIDL advance?**
 - EIDL advances are subtracted from the PPP loan forgiveness amount
- **Can I pay 1099 contractors?**
 - No, these are not considered W2 employees
- **Are the following considered utilities?**
 - Janitorial/Cleaning Services – NO
 - Pest Control – NO
 - Grease Trap Removal – NO
 - HOA/Association Fees – NO
 - Insurance Costs – NO
 - IT Services - NO

FAQ's

- **Can a home office be considered in loan forgiveness?**
 - The expenses for home office that are eligible for PPP forgiveness are mortgage interest, utilities, and rent.
 - There must be a designated area in the home that is used only for business for this to apply.
 - These expenses are prorated based on the percent of space used as home office. Even if the sole proprietor did not claim these expenses in 2019, (s)he may do so for the PPP forgiveness.
 - FYI - The expenses claimed on PPP cannot be claimed on 2020 tax returns
- **Can I pay my employees a bonus or “hazard pay”?**
 - Yes, as long as the amount does not exceed the equivalent of \$100K per year, in the case of 8-weeks that is \$15,385 and in case of 24-weeks \$46,154

Safe Harbor Rules – Inability to Rehire

- **You now have until December 31, 2020 to restore FTE to pre-COVID numbers**
 - Exemption in forgiveness reduction for:
 - (1) an inability to rehire individuals who were employees of the borrower on February 15, 2020; and
 - (2) an inability to hire similarly qualified individuals for unfilled positions on or before December 31, 2020
 - Borrowers must provide a written offer to the employee to restore the reduced hours, the same salary/wages, same hours and must maintain written copy of rejection by employee
 - Borrowers are required to inform the applicable state unemployment insurance office of any employee's rejected rehire offer within 30 days of the employee's rejection of the offer

Safe Harbor Rules - Compliance

- **New, Extended Exemption for the following:**
 - Inability to return to the same level of business activity as the borrower was operating at before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention (CDC), or the Occupational Safety and Health Administration
 - Related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19

Recordkeeping & Applying for Forgiveness

- **Best practices for recordkeeping:**
 - If possible, establish a second bank account to keep transactions separate
 - Keep a file with copies of leases and utility contracts, payroll records, invoices, copies of checks, other backup data for how you spent the funds in addition to written offers of employment and rejections
 - If you take draws, do so monthly and make a memo in the check or transfer line that this is “Draw X for Month”
- Work with your lender to apply for forgiveness within 10-months of the end of your PPP term and be prepared to provide all of the documentation requested
- Lenders have 60 days to make a determination before sending to The SBA, then The SBA has 90 days to issue a final determination
 - You can appeal The SBA decision
- You may only get one shot at forgiveness; more = better

Self Employed/Sole Prop/Schedule C Filers

- **Maximizing Forgiveness:**

- 8 Week Terms = 8/52 of Line 31 on Sch C eligible (max of \$15,385)
- 24 Week Term = 2.5 average monthly net profit on Sch C (max of \$20,833)
- Provide a copy of your Schedule C that was filed with The IRS
 - This should match the Schedule C you used to apply for PPP
 - There will likely be a reconciliation between The IRS and The SBA
- Pay yourself in weekly or monthly draws through check or bank transfer
 - Provide copies of cancelled/cashed checks
 - Confirm with a bank statement
- Healthcare and Retirement expenses are not eligible uses/forgiven for this category

Corporation/Partnership with W2 Payroll

- **Maximizing Forgiveness:**

- Remember that at least 60% needs to be W2 payroll to maximize forgiveness
- Provide detailed payroll reports with per-employee data for your full loan term
 - Many payroll companies have PPP specific reporting you can request
 - Remember only gross wages and state unemployment count towards payroll
 - Employer portion of payroll tax (SS & Medicare) are not eligible
- Provide invoices and copies of checks/ACH for healthcare/retirement
- Provide a copy of your bank statements to confirm payroll expenses
- Provide documentation on employees no longer with you
 - Good faith letters offering job with same hours/paid
 - Rejections (Email, Text, documentation of phone call)
 - Exit interviews for those that quit/are terminated

Businesses With W2 Payroll

- **Maximizing Forgiveness:**

- Maintain your employee “FTE” headcount
 - FTE = Total average of part time hours worked per week/40 + full time employees
 - Headcount based on 2/15/19 – 6/30/19 OR 1/1/20 – 2/29/20
- Maintain hourly/salary of at least 75% of previous quarter amounts
- If you offer an employee their job back and they refuse, you must notify AZ DES in writing (also provide this with you PPP forgiveness application)

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Unemployment Insurance Administration
PO BOX 29225
Phoenix AZ 85038-9225
Phoenix Fax: 602-612-8705/888-305-1348
Tucson Fax: 520-770-3357/520-770-3358

Non-Payroll Expenses

- **Maximizing Forgiveness:**

- Non-Payroll Expenses should not exceed 40% of total PPP amount
- Provide copies of invoices or billing statements
- Provide copies of cleared checks or ACH withdrawals for automatic payments
- Provide copies of lease agreements/fixed loans/Etc
- Provide bank statements to confirm payments

Live Q&A Session

- Feel free to follow up with me by emailing me at amber.Cordoba@cplc.org
- Feel free to connect with me on LinkedIn at <https://www.linkedin.com/in/ambermwilliams/>
- Visit our Loan Forgiveness page at <https://www.prestamosloans.org/ppp-forgiveness/>