

PPP FORGIVENESS PLANNING



Presented to: PAA Members

Date: April 23, 2020

OBJECTIVE

- Broaden your understanding of what drives loan forgiveness and help you assess what is best for your store.

AGENDA

- Cost Base - Allowable Costs vs. Forgivable Costs
- Reductions in Forgiveness
- Assumptions/Unresolved Issues
- Managing PPP
- Case Study – PPP Loan Forgiveness Tool

PPP LOANS

- Current Status
 - Most dealers have applied for loans and either been approved or funded
 - Initial funding has been spoken for, House was expected to vote today on next round of funding
- PPP Maximum Loan Calculation
 - Average monthly payroll costs for prior 12 months
 - X 2.5
 - Not to exceed \$10,000,000

PAYROLL COSTS (AS DEFINED)

- Payroll costs DO include:
 - Salary, wage, commission or similar compensation
 - Cash tips or equivalent
 - Vacation, parental, family, medical or sick leave
 - Allowance for dismissal or separation
 - Employer portion of:
 - Group health care benefits, including insurance premiums
 - Payment of any retirement benefit
 - Payment of state or local tax assessed on compensation of employees

PAYROLL COSTS (AS DEFINED)

- Payroll costs do NOT include:
 - Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the covered period
 - People paid via a 1099
 - Employer portion of FICA and FUTA
 - Compensation for employees living outside the U.S.
 - No double dipping on EFMLA or EPSL wages under COVID-2

ALLOWABLE vs FORGIVABLE

| Costs | Allowable | Forgivable |
|---|-----------|------------|
| Time Period | June 30 | 8 weeks |
| Payroll Costs (as defined) | YES | YES |
| Excess Compensation (ie in excess of \$100,000) | YES | NO |
| Group Health Care Benefits <u>During Periods of</u> Paid Sick, Medical or Family Leave | YES | NO |
| Payments of Interest on any Mortgage Obligation | YES | YES* |
| Interest on Any Other Debt Obligation Incurred Before Feb 15, 2020 | YES | NO |
| Rent | YES | YES* |
| Utilities | YES | YES* |
| Other SBA 7(a) Allowable Costs | MAYBE | NO |

* - Must have started prior to Feb 15, 2020

REDUCTIONS IN FORGIVENESS

- Did not spend it all on forgivable items
- Did not meet 75% tests
 - Allowable
 - Forgivable
- FTE Test
- Wage Reduction Test

Poorly written law. We're still hoping for clarification in the Regulations on all of these

75% TESTS

- Added by SBA – not in the law
- Allowable
 - At least 75% of the PPP loan proceeds shall be used for payroll costs
- Forgivable
 - Not more than 25% of the loan forgiveness amount may be attributable to non-payroll costs

| | FORGIVABLE | | ALLOWABLE | |
|-------------------|------------|-----------|-----------|-------------|
| | 8 Weeks | < June 30 | TOTAL | FORGIVENESS |
| EXAMPLE 1: | | | | |
| Payroll Costs | 600,000 | 150,000 | 750,000 | |
| Non-Payroll Costs | 200,000 | 50,000 | 250,000 | |
| TOTAL | 800,000 | 200,000 | 1,000,000 | 800,000 |
| EXAMPLE 2: | | | | |
| Payroll Costs | 550,000 | 200,000 | 750,000 | |
| Non-Payroll Costs | 250,000 | - | 250,000 | |
| TOTAL | 800,000 | 200,000 | 1,000,000 | 733,332 |
| EXAMPLE 3: | | | | |
| Payroll Costs | 550,000 | 200,000 | 750,000 | |
| Non-Payroll Costs | 166,000 | 84,000 | 250,000 | |
| TOTAL | 716,000 | 284,000 | 1,000,000 | 716,000 |
| EXAMPLE 4: | | | | |
| Payroll Costs | 500,000 | 200,000 | 700,000 | |
| Non-Payroll Costs | 200,000 | 100,000 | 300,000 | |
| TOTAL | 700,000 | 300,000 | 1,000,000 | ?????? |

FTE TEST

- Divide the average number of full-time equivalent employees (FTE) per month during the 8-week period – by –
- The average FTE employees per month between February 15, 2019 and June 30, 2019 – or –
- The average FTE employees per month between January 1, 2020 and February 29, 2020 – whichever is more beneficial

WAGE REDUCTION TEST

- Salary reduction of more than 25% for any employee making less than \$100,000 (on a per pay period basis in 2019) for the most recent full quarter (presumably the quarter ending March 31, 2020) compared to the 8-week period

RE-HIRE PROVISIONS

- Even more poorly written law. We're still hoping for clarification in the Regulations here as well
- Headcount
 - Reduction in average headcount for the period February 15, 2020 through April 26, 2020 (30-days from enactment of the CARES Act)
 - By June 30, 2020 you re-hire employees so your headcount is equal to what it was on February 15, 2020.
- Compensation
 - Reduction in compensation for a given employee for the period February 15, 2020 through April 26, 2020
 - By June 30, 2020 you have eliminated the reduction in salary compared to February 15, 2020

ASSUMPTIONS/UNRESOLVED ISSUES

- ALLOWABLE COSTS
 - Do I have to spend 75% of the total loan proceeds on payroll costs? What happens if I don't?
 - Do the other SBA 7(a) loan allowable costs qualify?
 - Is floorplan interest on a car by car basis (Feb 15)?
 - Does rent include both real property and personal property?
 - The definition of utilities includes "transportation". What is that?

ASSUMPTIONS/UNRESOLVED ISSUES

- FORGIVABLE COSTS

- Does floorplan interest count as “mortgage” interest?
- If so, does it matter if vehicle was acquired before 2/15?
- Are there any recurring item exceptions to the “incurred and paid” concept for costs?
- Does vacation/sick pay count towards \$100,000 per employee limit?

ASSUMPTIONS/UNRESOLVED ISSUES

- REDUCTIONS IN FORGIVENESS

- In what order and to what amounts do you apply the various forgiveness reduction rules?
- What is the definition of a Full-Time Equivalent (FTE)?
- Does the “most recent full quarter” mean Q1 2020 for all employees? Or only those that were not furloughed in March?
- For the wage reduction test, is the Q1 2020 wage intended to be pro-rated to the 8 week equiv?
- For the wage reduction test, how do you handle an employee who does not return for non COVID reasons?

The order of the 3 tests matters. Forgiveness amount ranges from \$500,000 to \$562,500 in this fact pattern.

| Assume 75/25, Then FTE, Then Wage | | | Assume 75/25, Then Wage, Then FTE | | | Assume FTE, Then 75/25, Then Wage | | |
|-----------------------------------|---------|----------------|-----------------------------------|----------|----------------|-----------------------------------|----------|----------------|
| Loan Amount | | 1,000,000 | Loan Amount | | 1,000,000 | Loan Amount | | 1,000,000 |
| Payroll Costs | 550,000 | | Payroll Costs | 550,000 | | Total Costs | 800,000 | |
| Eligible Non Payroll | 183,333 | | Eligible Non Payroll | 183,333 | | FTE Reduction Applied | 75% | |
| | | 733,333 | | | 733,333 | | | 600,000 |
| FTE Reduction Applied | | 75% | Wage Reduction Applied | | (50,000) | Payroll Costs | 550,000 | |
| | | 550,000 | | | 683,333 | Eligible Non Payroll | 50,000 | |
| Wage Reduction Applied | | (50,000) | FTE Reduction Applied | | 75% | | | 600,000 |
| | | | | | | Wage Reduction Applied | | (50,000) |
| FORGIVENESS | | 500,000 | FORGIVENESS | | 512,500 | FORGIVENESS | | 550,000 |
| | | | | | | | | |
| | | | | | | | | |
| Assume FTE, Then Wage, Then 75/25 | | | Assume Wage, Then 75/25, Then FTE | | | Assume Wage, Then FTE, Then 75/25 | | |
| Loan Amount | | 1,000,000 | Loan Amount | | 1,000,000 | Loan Amount | | 1,000,000 |
| Total Costs | 800,000 | | Total Costs | 800,000 | | Total Costs | 800,000 | |
| FTE Reduction Applied | 75% | | Wage Reduction Applied | (50,000) | | Wage Reduction Applied | (50,000) | |
| | | 600,000 | | | 750,000 | | | 750,000 |
| Wage Reduction Applied | | (50,000) | Payroll Costs | 550,000 | | FTE Reduction Applied | | 75% |
| | | 550,000 | Non Payroll Costs | 183,333 | | | | 562,500 |
| Payroll Costs | 550,000 | | | | 733,333 | Payroll Costs | 550,000 | |
| Non Payroll Costs | - | | FTE Reduction Applied | | 75% | Non Payroll Costs | 12,500 | |
| | | | | | | | | |
| FORGIVENESS | | 550,000 | FORGIVENESS | | 550,000 | FORGIVENESS | | 562,500 |
| | | | | | | | | |

ASSUMPTIONS/UNRESOLVED ISSUES

- END OF PROGRAM
 - What amount converts to term loan?
 - Loan Proceeds less Forgiven OR
 - Allowable Costs less Forgiven
 - Is it really tax free income or does the loan generate non-deductible expenses?

MANAGING PPP

- Do I bring all of my employees back?
- Do I need a separate bank account?
- What do I need to monitor?
 - Monitor total allowable/forgivable spend
 - Monitor FTE headcount weekly
 - Monitor compensation of pre COVID employees as compared to eight week measurement period.
 - Monitor payroll/non payroll cost ratio
 - Payroll must be greater than or equal to 75% of cost base
 - Non-payroll must be less than or equal to 25% of cost base

MANAGING PPP

- Examples to consider to increase payroll cost base
 - Consider pay premium for key employees
 - Consider health insurance premium holiday
 - Consider pro-rated profit sharing or match

EXCEL WORKBOOK - UPGRADES

- Weekly and Bi-Weekly Payroll Options
- Actual Payroll Ending Dates – not just Friday
- No need to pro-rate data –
 - All pro-rations handled by file
- Enter Actual data at end of each pay period
 - Refine projections throughout 8 week period

EXCEL WORKBOOK CASE STUDY

- https://www.cpabr.com/covid_19_news/ppp-loan-forgiveness-workbook/



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QUESTIONS?

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