



PPP Loan Forgiveness: Who, What, Where, When, Why to Spend

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Agenda

- Housekeeping items
- PPP funded again!
- EIDL vs PPP issues
- PPP loan forgiveness basics
- PPP loan forgiveness limitations
- PPP detailed examples
- PPP loan forgiveness strategies
- PPP documentation
- PPP other considerations
- Q & A

PPP funded again!

- Congress passed new funding round April 23rd
- Allocated additional funds for PPP
- Banks expected to accept and process applications starting today, April 24th
- \$250B general PPP money, \$30B for small banks with under \$10B assets, \$30B for banks with between \$10B-\$50B assets
- \$50B for EIDL and \$10B for EIDL Grants

EIDL

ECONOMIC INJURY DISASTER LOAN

- Use this for things other than payroll
- This is long term debt 3.75%, 30 years
- \$10k EIDL Grant is refinanced into the PPP loan and is forgivable when used for payroll
- Cannot use EIDL and PPP for the same costs
- Could potentially use EIDL funds for payroll costs after the PPP 8 weeks is up.
- No double dipping with counting of costs towards both loans

PPP

PAYROLL PROTECTION PROGRAM

- Use this for payroll costs
- This is forgivable, but you need to follow the rules
- This is short term debt, if not forgiven, 1%, 2 years
- Cannot use EIDL and PPP for the same costs
- No double dipping with counting of costs towards both loans

PPP Loan Forgiveness - Basics

Example Scenario:

1. \$250k loan
2. \$150k spent in both payroll and non-payroll costs
3. 15 employees during 8-week period and 20 employee during the base period (75% of employees still working or rehired)
4. No employees making over 100k during the year or \$15,385 during the 8-week period
5. No employee compensation cuts of 25% or more

$\$150k \text{ spent} * 15/20 \text{ employees} = \$112.5k \text{ in loan forgiveness and } \$137.5k \text{ as a loan that has } 1\% \text{ interest over } 2 \text{ years.}$

You have \$100k of cash leftover and you owe a loan of \$137.5k.

PPP Loan Forgiveness - Basics

- Lender must make 1st disbursement of loan no later than 10 days from loan approval. 8-week period for tracking debt forgiveness starts with the first loan disbursement. Could be up to 30 days before full disbursement.
- 8-week period after funds received is the loan forgiveness tracking period, only costs incurred and payments made during those 8 weeks can count towards the loan forgiveness
- 75% of the loan required to be used for “payroll costs”
 - Gross wages (including commissions, bonus, tips, vacation etc.)
 - Employer retirement benefits
 - Group health care benefits
 - State and local taxes
 - Gross wages limited to \$100k annualized per person
 - Any individual receiving more than \$15,385 during that 8-week period, only the \$15,385 in compensation will count towards payroll costs for forgiveness.

PPP Loan Forgiveness - Basics

- Maximum of 25% of the loan costs could be used for non-payroll costs:
 - Rent
 - Defined as "rent obligated under a leasing agreement in force before February 15, 2020"
 - Utilities (electric, water, gas, phone, internet, transportation)
 - Mortgage interest for mortgages in place before 2-15-2020 (no principal)
 - Other interest expense for debt in place before 2-15-2020 (no principal)
 - This other interest expense is an allowable cost, but it is NOT a forgivable cost. This is not ideal; a far better use of the funds would be any one of the forgivable costs, this category is basically a last resort.

PPP Loan Forgiveness - Limitations

4 limitations come into play that interact with each other, but are also measured independent of each other:

1. Amount of loan funds used during the 8-week covered period – maximum forgiveness is the amount you spend on approved expenses of the PPP funds.
2. Use of Funds - 75% or more of the loan must be used for payroll, and only up to 25% of the loan can be used for the non-payroll costs. Any amount in excess of 25% spent on the nonpayroll costs will not be forgiven.

PPP Loan Forgiveness - Limitations

3. Reductions in pay of more than 25% for employees making less than \$100,000 - this can be avoided by ensuring that everyone on payroll is making the same or more than they made during the full quarter before the 8-week period (Q1 2020).
4. Reductions in full-time equivalents during the 8-week period. If a reduction in headcount occurs during the 8-week forgiveness period compared to base period, then a percentage of the loan won't be forgiven. For example if 90% headcount is achieved, then at most 90% of the loan money spent can be forgiven.
 - An exception applies if you have a headcount reduction between February 15, 2020 and April 26, 2020 and you restore your full-time employment and salary levels by June 30, 2020.

PPP DETAILED EXAMPLE #1

- \$250k funded April 20th based on \$100k per month average payroll cost with 20 employees
- 8 weeks is up June 14th
- Salon is currently closed and not allowed to reopen until May 11th (3 weeks closed, 5 weeks open during the 8 week period)
- \$30k of rent/utilities cost will be incurred during the 8 week forgiveness period

Do nothing strategy just hires 20 people back May 11th at the old pay structure, so 5 weeks of normal payroll incurred, but with limitations on customers only 60% of commissions paid out to staff.

PPP DETAILED EXAMPLE #1

Do nothing strategy results:

1. \$105k money spent (\$75k payroll and \$30k rent)
2. \$78k forgiven because non payroll exceeded 25% + wages reduced more than 25% for employees
3. PPP loan of \$172k to be repaid with \$145k cash in hand, accruing 1% interest / 2 years
4. Owner with \$78k of tax deductions with the free money worth maybe \$20k tax savings
5. \$98k net benefit from PPP loan forgiven plus tax benefits to the owner
6. Employees might be upset since pay reduced and forced to come off unemployment

PPP DETAILED EXAMPLE #1

Smart strategy includes:

1. Leave owner on payroll while closed, so 3 extra weeks of pay there
2. Hire the other 19 people back May 5th with a few meetings and things they can do from home that first week of work, one extra week for 19 people there
3. Rehire Bonus of \$2,000 to 19 employees (not the owner) to make sure they make more working for you than they do on unemployment
4. Minimum commissions equal to 2019 average monthly salary so they get 100% of prior year pay even if restrictions on the business limit their commission calculation
5. Accelerate payout of accrued vacation time, retirement plan contributions \$1,000 per employee

PPP DETAILED EXAMPLE #1

Smart strategy results:

1. \$239k money spent
2. \$239k forgiven
3. PPP loan of \$11k to be spent on future payroll, accruing 1% interest due in 2 years
4. Owner with \$239k tax deductions with free money worth maybe \$60k tax savings
5. \$299k net benefit from PPP loan forgiven plus tax benefits to the owner
6. Employees probably love you

PPP DETAILED EXAMPLE #2

- \$250k funded April 20th based on same 20 employees as the first example
- \$30k rent expense expected over 8 weeks
- Restaurant business with 20% working capacity right now, allowed to open again June 1st and likely to be at 50% capacity when allowed to reopen

Do nothing strategy just has employees working to equal restaurant capacity, 20% employed now, 50% employed when reopened

PPP DETAILED EXAMPLE #2

Do nothing strategy results:

1. \$81k money spent (\$51k payroll and \$30k rent)
2. \$14k forgiven because headcount was not fully restored by June 30th and headcount was down during the 8 week period, also limited by 25% nonpayroll cost maximum
3. PPP loan of \$236k to be repaid with \$169k cash in hand, accruing 1% interest / 2 years
4. Owner with \$14k tax deductions with the free money worth maybe \$3k tax savings
5. \$17k net benefit from PPP loan forgiven plus tax benefits to the owner

PPP DETAILED EXAMPLE #2

Smart strategy includes:

1. Know your FTE count and find creative ways to be fully staffed by 06/30!
 - a. Self-delivery
 - b. Maximize the 30 hour FTE rule
 - c. Cook and deliver to neighboring businesses or essential workers
 - d. Other ideas?

PPP DETAILED EXAMPLE #2

Smart strategy results:

1. \$81k money spent
2. \$71k forgiven (limited by 25% nonpayroll)
3. PPP loan of \$179k to be spent on future payroll, accruing 1% interest due in 2 years
4. Owner with \$71k tax deductions from free money worth maybe \$18k tax savings
5. \$89k net benefit from PPP loan forgiven plus tax benefits to the owner

PPP DETAILED EXAMPLE #3

- \$250k funded April 20th based on same 20 employee company, 80% or 16 employees working on funded date
- 8 weeks is up June 15th
- Construction contractor or manufacturer where they are operating as an essential business
- Can be less defensive in approach
- Review backlog, pipeline and 13-week cash flow to understand and plan the next quarter and narrow in on 8-week period

PPP DETAILED EXAMPLE #3

Do nothing strategy results:

1. \$178k money spent during 8-weeks (\$148 payroll and \$30k rent) 83% on payroll costs
2. \$142k forgiven or 80% of expended amount (16 FTEs 8-week period /20 FTE's base period, no 25% or more pay cuts) approximately 57% of total loan is forgiven
3. PPP loan of \$108k to be repaid with \$72k cash in hand, accruing 1% interest / 2 years

PPP DETAILED EXAMPLE #3

Smart strategy includes:

1. Management coordinates loan and brings back two key employees, one project manager and one sales engineer as they expect their current projects to get them by the next few months but have concerns about revenue for later in 2020. Increasing FTE's to 18
2. Management reviews other ways to increase FTE's that are productive and revenue generating but decides to wait until late May to assess the market
3. Management funds 8 weeks of profit sharing and reviews facility lease to claim 8 weeks of net rent expenses contained in lease.
4. Late May they determine that will run with current team and do not expect to bring back any other employees by June 30, they are 90% with respect to employee count but they don't have work for additional employees and little revenue or production is likely (labor margins are generally about 40-50%). They choose to keep a little cash and liquidity to get by the next few months.

PPP DETAILED EXAMPLE #3

Smart strategy results:

1. \$225k money spent
2. \$202k forgiven (90% of expended) 81% of total loan forgiven
3. Leftover PPP loan of \$25k to be spent on future payroll, accruing 1% interest due in 2 years. Spending the remaining cash would have yielded an additional 23k in forgiveness – but little benefits
4. Sales employees have generated several opportunities for the fall.

PPP Loan Forgiveness Strategies

- Being conscious of timing of rent, utilities, mortgage interest payments to take advantage of the 25% for non-payroll costs.
- If a reduction in staffing occurred, doing everything in your power to get staffed back up by June 30th to be eligible for full forgiveness on the money spent
- Use the lowest FTE count for the base period (2/15/19-6/30/19 or 1/1/20-2/29/20)
- Run multiple alternatives with FTE's and eligible expenses - for example \$1 spent = \$2 forgiveness
- Use 13 week-cash flow template – make sure to monitor entire business - sometimes liquidity is as good or possibly better than forgiveness (do so within the spirit of the PPP program)

PPP Loan Forgiveness Strategies

- Keeping the owner or key managers on payroll even when closed
- Rehire bonus for employees who had been laid off or furloughed, especially if unemployment is similar/more to their normal earnings, retention bonus if employees have stayed on
- Minimum compensation for commission people to ensure they make as much in the 8-week forgiveness period as their average 2019 payroll that went into the PPP loan application
- Running extra payroll before the 8 weeks is up so you don't miss out on including payments just after the 8 weeks is up
- Paying overtime if employees can work and revenue generating projects are available for them

PPP Loan Forgiveness Strategies

- Paying 8 weeks worth of retirement contributions during the 8-week forgiveness period that would otherwise be paid outside of the 8-week time period
- Focusing on FTE count and understanding that 30 hours per week qualifies as full time, so that's 1 FTE
- DO NOT do the following
 - Dramatically increasing related party wages
 - Switch 1099 contractors to wages for 8 weeks and then switch back
 - Excessive owners draws or big nonessential purchases like cars

PPP Loan Forgiveness Documentation

- Keep PPP funds in a separate bank account
- Reimburse your main operating account with the funds from the PPP account – this helps you monitor and maintain 75% payroll costs to 25% other costs rule
- Using our calculator to document and reimburse the proper amount of the funds for each payroll run
- Keeping receipts and documentation for mortgage interest payments, rent payments and/or utility payments to support reimbursements from the PPP funds
- Monitoring progress as you go, and updating the models each week

Other Considerations

- You will need to submit a request for forgiveness
- For amount not forgiven, 1% loan amortized over 2 years with 6-month deferment of payments (interest will still accrue)
 - No prepayment penalty for PPP loan
- Certifications are very important
 - Economic uncertainty
 - Retain workers, maintain payroll or pay mortgage interest, rent or utilities
 - You can only get one PPP loan
 - You will provide all documentation
 - False statements will be punishable by law
 - SBA will be given documents for compliance purposes
 - Repaying PPP by May 7th if you don't need it is allowed like Shake Shack and Ruth's Chris Steakhouse have done this week

Q&A with the COVID-19 Boyum Team

This presentation has been recorded and will be posted on our website within 24 hours under our covid-19 tab.

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