



**PAYCHECK PROTECTION PROGRAM  
~~FINAL~~ LATEST\* UPDATE TO FORGIVENESS  
CALCULATION  
MAY 26, 2020**

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# PAYCHECK PROTECTION PROGRAM (PPP)

- Loan Forgiveness Overview:
  - Principal and accrued interest may be forgiven on a loan-by-loan basis in an amount equal to **allowable costs** incurred and paid during the eight-week period after the loan is made (covered period)
  - Allowable costs include: (a) payroll costs, (b) interest payments on any mortgage in force prior to 2/15/2020, (c) rent payments on any lease agreement in force prior to 2/15/2020, and (d) utility expenses for services in place before 2/15/2020
  - Loan forgiveness will be reduced for borrowers who decrease their full-time equivalent headcount or who decrease salaries and wages in excess of 25% during the covered period
  - You have until 6/30/2020 to restore your full-time equivalent employment and salary levels for any reductions made between 2/15/2020 and 4/26/2020
  - Non-payroll costs cannot be more than 25% of the forgiven loan amount (based on current guidance)
- Good Faith Certifications
  - Current uncertainty makes loan necessary to support ongoing operations (safe harbor for loans under \$2,000,000)
  - Funds will be used to retain workers, finance payroll expenses, make mortgage, rent and utility payments
  - Other document verification

# PAYCHECK PROTECTION PROGRAM (PPP)

Paid Item	Allowable Use	Eligible for Forgiveness
Payroll costs (more details to follow)	Yes	Yes
Mortgage interest payments (but not prepayments or mortgage principal)	Yes	No
Mortgage interest payments (but not prepayments or mortgage principal) for mortgages incurred before February 15 <sup>th</sup> , 2020	Yes	Yes
Rent and lease payments for real or personal property	Yes	No
Rent and lease payments for real or personal property with lease agreement in force before February 15 <sup>th</sup> , 2020	Yes	Yes

# PAYCHECK PROTECTION PROGRAM (PPP)

Paid Item	Allowable Use	Eligible for Forgiveness
Utility payments for a service for the distribution of electricity, gas, water, <b>transportation</b> , telephone, or internet access	Yes	No
Utility payments for a service for the distribution of electricity, gas, water, <b>transportation</b> , telephone, or internet access which service began before February 15 <sup>th</sup> , 2020	Yes	Yes
Interest on other debt incurred before February 15 <sup>th</sup> , 2020	Yes	No
All other expense items	No	No

# PAYCHECK PROTECTION PROGRAM (PPP)

Payroll Item	Allowable Use	Eligible for Forgiveness
Employees with principal residence inside the US	Yes	Yes
Employees with principal residence outside the US	No	No
Employee salary, wages, commissions, bonuses, “hero” pay, cash tips, separation pay, and other payroll compensation*	Yes	Yes
Salary in excess of \$100,000 (prorated for the covered period)	No	No
Vacation, parental, family, medical or sick leave pay (not paid under FFCRA)	Yes	Yes
Amounts paid under FFCRA	No	No

\*The amount of loan forgiveness requested for owner-employees and self-employed individuals’ payroll compensation can be no more than the lesser of 8/52 of 2019 compensation (i.e., approximately 15.38 percent of 2019 compensation) or \$15,385 per individual

# PAYCHECK PROTECTION PROGRAM (PPP)

Payroll Item	Allowable Use	Eligible for Forgiveness
Group health insurance payments	Yes	Yes
Employer retirement plan contributions	Yes	Yes
Federal payroll withholdings (FICA, FIT) withheld from employee pay	Yes	Yes
State and local payroll withholdings (SUTA, PFML) withheld from employee pay*	Yes	Yes
Other withholdings from employee pay (retirement plan contributions, garnishments, etc.)*	Yes	Yes
Employer FICA and FUTA taxes	No	No
Employer state and local payroll taxes (SUTA)**	Yes	Yes
Workers Compensation**	No	No

\* Do not include these in the calculation separately, they are part of employee gross pay

\*\* State and local taxes eligible for use and forgiveness include taxes “assessed on employee compensation

# PAYCHECK PROTECTION PROGRAM (PPP)

- What if a business uses funds for allowable but not forgivable purposes?
  - Amount not forgiven is a non-recourse loan at 1% interest
  - Payable over 18 months, starting six months from loan disbursement
  - No penalties for prepaying
- What if a business uses funds for non-allowable purposes?
  - Don't
  - SBA will direct perpetrator to repay and if knowingly used for unauthorized purposes, will be subject to charges for fraud\*
  - Loan will become recourse
  - So, Don't



# PAYCHECK PROTECTION PROGRAM (PPP)

- Loan Forgiveness Detail:
  - Allowable costs incurred and paid during the covered period (**or Alternative Payroll Covered Period**).
    - At least 75% need to be for payroll costs
  - Reduced **first** for decrease in **average annual** salary and **average hourly** wages paid to an employee in the covered period in excess of 25% of the total **average annual** salary and **average hourly** wages during the most recent full quarter employed **first quarter 2020**.
    - Only applies to employees who did not earn an annualized rate of pay in excess of \$100,000 in any pay period in 2019.\*
  - Reduced proportionately for any reduction in the monthly **weekly** average full-time equivalent employees during the covered period to:
    - The monthly **weekly** average full-time equivalent employees between 2/15/2019 and 6/30/2019, OR
    - The monthly **weekly** average full-time equivalent employees between 1/1/2020 and 2/29/2020
      - Seasonal employers must use ~~2/15/2019 through 6/30/2019~~ **may use either of the above OR any consecutive 12 weeks between 3/1/2019 and 9/15/2019** for the calculation

# PAYCHECK PROTECTION PROGRAM (PPP)

- Safe Harbors:
  - If a reduction in FTE head-count and/or wage and salary occurs between 2/15/2020 and 4/26/2020, the employer can re-hire the affected employee and/or restore his or her pay by 6/30/2020 to the same level as the pay period including 2/15/2020 to avoid counting that employee for the reduction in loan forgiveness.
  - If an employee refuses to return to work, the employer will not be penalized for the reduction if a good-faith, **written** request was made to re-hire the employee.
  - If an employee is terminated for cause, voluntarily resigns, or voluntarily requests reduced hours, the employer will not be penalized for the reduction. **Document in writing!**
- Need for additional guidance
  - What about businesses who cannot re-open to full capacity during the initial 8 weeks? Will they be given additional time?

# PAYCHECK PROTECTION PROGRAM (PPP)

- Calculating forgiveness – what information do you need?
  - Loan amount
  - Loan disbursement date (+ 8 weeks for covered period)
  - Alternative Payroll Covered Period (APCP), optional
    - Beginning of first pay period after disbursement date plus 8 weeks IF pay periods are bi-weekly or more frequent.
  - Payroll by employee by week incurred and paid\* during the covered period (or APCP)
    - Payroll at the end of the period incurred but not paid will count if paid by the normal payment date.\*\*
  - Payroll by employee by week for 1/1/2020 through 3/31/2020
  - Payroll by employee by week for the pay period including 2/15/2020
  - Payroll by employee by week for 2/15/2020 through 4/26/2020

# PAYCHECK PROTECTION PROGRAM (PPP)

- Calculating forgiveness – what information do you need?
  - Payroll by employee by week for the pay period that includes 6/30/2020
  - Payroll by employee by week for the chosen FTE comparison period\*
  - Payroll by employee by pay period for 2019 to determine who was in excess of \$100,000 annually
  - Employer health coverage contributions paid during the covered period (or APCP)\*\*
  - Employer retirement contributions paid during the covered period (or APCP)\*\*
  - Employer state and local payroll taxes paid during the covered period (or APCP)\*\*
  - Interest payments made during the covered period on mortgages in place before 2/15/2020\*\*\*
  - Rent or lease payments made during the covered period on agreements in place before 2/15/2020\*\*\*
  - Utility payments made during the covered period on services beginning before 2/15/2020\*\*\*

\*\*\*Must be paid during the covered period or incurred during the covered period and paid by the next regular billing date. These payments do not use the APCP.

# PAYCHECK PROTECTION PROGRAM (PPP)

- Example calculation
  - Loan amount \$250,000
  - Covered period (or APCP) allowed costs
    - Payroll costs \$200,000
    - Interest, rent, and utilities \$50,000
  - FTE average weekly head count
    - Covered period 17
    - Comparison period 20

# PAYCHECK PROTECTION PROGRAM (PPP)

- Employees

	Covered Period				1st Quarter 2020			
	Wages	Average Hours	Pay Rate	Weeks Worked	Wages	Average Hours	Pay Rate	Weeks Worked
Employee 1	6,400.00	40.00	20.00	8.00	10,400.00	40.00	20.00	13.00
Employee 2	5,000.00	25.00	25.00	8.00	9,750.00	30.00	25.00	13.00
Employee 3	1,200.00	10.00	15.00	8.00	4,875.00	25.00	15.00	13.00
Employee 4	4,800.00	30.00	20.00	8.00	13,000.00	40.00	25.00	13.00
Employee 5	11,200.00	40.00	35.00	8.00	27,300.00	60.00	35.00	13.00
Employee 6	-	-	-	-	9,360.00	40.00	18.00	13.00
Employee 7	3,600.00	25.00	18.00	8.00	-	-	18.00	13.00
Employee 8	4,800.00	20.00	30.00	8.00	18,200.00	40.00	35.00	13.00
Employee 9	5,280.00	30.00	22.00	8.00	14,300.00	50.00	22.00	13.00
Employee 10	10,000.00			8.00	22,000.00			13.00

# PAYCHECK PROTECTION PROGRAM (PPP)

- Employees

	Covered Period				1st Quarter 2020					
	Wages	Average Hours	Pay Rate	Weeks Worked	Wages	Average Hours	Pay Rate	Weeks Worked	Hourly Rate Comparison	Annual Salary Comparison
Employee 1	6,400.00	40.00	20.00	8.00	10,400.00	40.00	20.00	13.00	100%	
Employee 2	5,000.00	25.00	25.00	8.00	9,750.00	30.00	25.00	13.00	100%	
Employee 3	1,200.00	10.00	15.00	8.00	4,875.00	25.00	15.00	13.00	100%	
Employee 4	4,800.00	30.00	20.00	8.00	13,000.00	40.00	25.00	13.00	80%	
Employee 5	11,200.00	40.00	35.00	8.00	27,300.00	60.00	35.00	13.00		
Employee 6	-	-	-	-	9,360.00	40.00	18.00	13.00	0%	
Employee 7	3,600.00	25.00	18.00	8.00	-	-	18.00	13.00		
Employee 8	4,800.00	20.00	30.00	8.00	18,200.00	40.00	35.00	13.00	86%	
Employee 9	5,280.00	30.00	22.00	8.00	14,300.00	50.00	22.00	13.00	100%	
Employee 10	10,000.00			8.00	22,000.00			13.00		74%

# PAYCHECK PROTECTION PROGRAM (PPP)

- Hourly Wage Reduction

	Covered Period				1st Quarter 2020				
	Wages	Average Hours	Pay Rate	Weeks Worked	Wages	Average Hours	Pay Rate	Weeks Worked	Hourly Rate Comparison
Employee 6	-	-	-	-	9,360.00	40.00	18.00	13.00	0%

- Rate = (1st Quarter Pay Rate x 75%) - CP or APCP Pay Rate
  - (\$18.00 x 75%) - \$0.00 = \$13.50
- Amount = Rate x 1st Quarter Average Hours x 8
  - \$13.50 x 40 x 8 = \$4,320



# PAYCHECK PROTECTION PROGRAM (PPP)

- Salary Wage Reduction

	Covered Period				1st Quarter 2020				
	Wages	Average Hours	Pay Rate	Weeks Worked	Wages	Average Hours	Pay Rate	Weeks Worked	Annual Salary Comparison
Employee 10	10,000.00			8.00	22,000.00			13.00	74%

- 1st Quarter Annual Salary x 75%
  - $\$22,000 \times 4 \times 75\% = \$66,000$
- Covered Period or APCP Annual Salary
  - $\$10,000 / 8 \times 52 = \$65,000$
- Underpayment = \$1,000
- Amount = Underpayment x 8 / 52
  - $\$1,000 \times 8 / 52 = \$153.85$

# PAYCHECK PROTECTION PROGRAM (PPP)

- Example calculation
  - Loan amount \$250,000
  - Covered period (or APCP) allowed costs
    - Payroll costs \$200,000
    - Interest, rent, and utilities \$50,000
  - **Hourly wage reduction \$4,320.00**
  - **Salary wage reduction \$153.85**
  - FTE average weekly head count
    - Covered period 17
    - Comparison period 20

# PAYCHECK PROTECTION PROGRAM (PPP)

- Forgiveness
  - Amount spent on payroll \$200,000.00
  - Amount spent on non-payroll 50,000.00
  - LESS wage reduction (4,473.85)
    - Subtotal \$245,526.15
  - Multiply head-count reduction (17/20) 0.85
    - (A) Forgiveness based on payments \$208,697.23
    - (B) Total PPP loan \$250,000.00
    - (C) Amount spent on payroll / 75% \$266,666.67
  - Maximum Forgiveness (Smallest of A, B, and C) \$208,697.23
  - Repayment \$41,302.77

# PAYCHECK PROTECTION PROGRAM (PPP)

- Forgiveness – written documentation for Employee 6 not returning
  - Amount spent on payroll \$200,000.00
  - Amount spent on non-payroll 50,000.00
  - LESS wage reduction\* (153.85)
  - Subtotal \$249,846.15
  - Multiply head-count reduction (18/20) 0.90
  - (A) Forgiveness based on payments \$224,861.54
  - (B) Total PPP loan \$250,000.00
  - (C) Amount spent on payroll / 75% \$266,666.67
  - Maximum Forgiveness (Smallest of A, B, and C) \$224,861.54
  - Repayment \$25,138.46

# PAYCHECK PROTECTION PROGRAM (PPP)

- Example calculation – did not spend everything
  - Loan amount \$250,000
  - Covered period (or APCP) allowed costs
    - Payroll costs \$150,000
    - Interest, rent, and utilities \$25,000
  - FTE average weekly head count
    - Covered period 15
    - Comparison period 20

# PAYCHECK PROTECTION PROGRAM (PPP)

- Employees

	Covered Period				1st Quarter 2020			
	Wages	Average Hours	Pay Rate	Weeks Worked	Wages	Average Hours	Pay Rate	Weeks Worked
Employee 1	4,480.00	40.00	14.00	8.00	10,400.00	40.00	20.00	13.00
Employee 2	5,000.00	25.00	25.00	8.00	9,750.00	30.00	25.00	13.00
Employee 3	1,200.00	10.00	15.00	8.00	4,875.00	25.00	15.00	13.00
Employee 4	4,800.00	30.00	20.00	8.00	13,000.00	40.00	25.00	13.00
Employee 5	11,200.00	40.00	35.00	8.00	27,300.00	60.00	35.00	13.00
Employee 6	-	-	-	-	9,360.00	40.00	18.00	13.00
Employee 7	3,600.00	25.00	18.00	8.00	-	-	18.00	13.00
Employee 8	4,800.00	20.00	30.00	8.00	18,200.00	40.00	35.00	13.00
Employee 9	5,280.00	30.00	22.00	8.00	14,300.00	50.00	22.00	13.00
Employee 10	10,000.00				22,000.00			

# PAYCHECK PROTECTION PROGRAM (PPP)

- Employees

	Covered Period				1st Quarter 2020					
	Wages	Average Hours	Pay Rate	Weeks Worked	Wages	Average Hours	Pay Rate	Weeks Worked	Hourly Rate Comparison	Annual Salary Comparison
Employee 1	4,480.00	40.00	14.00	8.00	10,400.00	40.00	20.00	13.00	70%	
Employee 2	5,000.00	25.00	25.00	8.00	9,750.00	30.00	25.00	13.00	100%	
Employee 3	1,200.00	10.00	15.00	8.00	4,875.00	25.00	15.00	13.00	100%	
Employee 4	4,800.00	30.00	20.00	8.00	13,000.00	40.00	25.00	13.00	80%	
Employee 5	11,200.00	40.00	35.00	8.00	27,300.00	60.00	35.00	13.00		
Employee 6	-	-	-	-	9,360.00	40.00	18.00	13.00	0%	
Employee 7	3,600.00	25.00	18.00	8.00	-	-	18.00	13.00		
Employee 8	4,800.00	20.00	30.00	8.00	18,200.00	40.00	35.00	13.00	86%	
Employee 9	5,280.00	30.00	22.00	8.00	14,300.00	50.00	22.00	13.00	100%	
Employee 10	10,000.00				22,000.00					74%

# PAYCHECK PROTECTION PROGRAM (PPP)

- Hourly Wage Reduction

	Covered Period				1st Quarter 2020				
	Wages	Average Hours	Pay Rate	Weeks Worked	Wages	Average Hours	Pay Rate	Weeks Worked	Hourly Rate Comparison
Employee 1	4,480.00	40.00	14.00	8.00	10,400.00	40.00	20.00	13.00	70%

- Rate = (1st Quarter Pay Rate x 75%) - CP or APCP Pay Rate
  - (\$20.00 x 75%) - \$14.00 = \$1.00
- Amount = Rate x 1st Quarter Average Hours x 8
  - \$1.00 x 40 x 8 = \$320



# PAYCHECK PROTECTION PROGRAM (PPP)

- Salary Wage Reduction

	Covered Period				1st Quarter 2020				
	Wages	Average Hours	Pay Rate	Weeks Worked	Wages	Average Hours	Pay Rate	Weeks Worked	Annual Salary Comparison
Employee 10	10,000.00			8.00	22,000.00			13.00	74%

- 1st Quarter Annual Salary x 75%
  - $\$22,000 \times 4 \times 75\% = \$66,000$
- Covered Period or APCP Annual Salary
  - $\$10,000 / 8 \times 52 = \$65,000$
- Underpayment = \$1,000
- Amount = Underpayment x 8 / 52
  - $\$1,000 \times 8 / 52 = \$153.85$

# PAYCHECK PROTECTION PROGRAM (PPP)

- Example calculation
  - Loan amount \$250,000
  - Covered period (or APCP) allowed costs
    - Payroll costs \$150,000
    - Interest, rent, and utilities \$25,000
  - **Hourly wage reduction \$320.00**
  - **Salary wage reduction \$153.85**
  - FTE average weekly head count
    - Covered period 15
    - Comparison period 20

# PAYCHECK PROTECTION PROGRAM (PPP)

- Forgiveness
  - Amount spent on payroll \$150,000.00
  - Amount spent on non-payroll 25,000.00
  - LESS wage reduction (473.85)
    - Subtotal \$174,526.15
  - Multiply head-count reduction (15/20) 0.75
    - (A) Forgiveness based on payments \$130,894.62
    - (B) Total PPP loan \$250,000.00
    - (C) Amount spent on payroll / 75% \$200,000.00
  - Maximum Forgiveness (Smallest of A, B, and C) \$130,894.62
  - Repayment \$119,105.38

# PAYCHECK PROTECTION PROGRAM (PPP)

- Unanswered Questions:
  - Will we have future guidance that clarifies or changes these interim rules (most likely)?
  - Does self-charged rent payments count (seem to, but be careful)?
  - Is the rehire rule by 06/30/2020 really as easy as hiring employees back for one day (unclear, but I would not count on it)?
  - Will the 8-week forgiveness period be extended (get your crystal ball out)?
  - How will lenders interpret the guidance (most likely divergent policies, refer to the PPP application process)?
  - How are loan proceeds used for self-employed sole proprietors and partners forgiven (more guidance likely)?
  - What will the appeal process on loan forgiveness determination look like (guidance to be issued at a later date)?

# QUESTIONS AND RESOURCES

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Guidance from US Department of Treasury

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

Guidance and application information from US Small Business Administration

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>

IRS Coronavirus Resource Center

<https://www.irs.gov/coronavirus-tax-relief-and-economic-impact-payments>