What To Do after receiving a COVID-19 Loan(s)
Presentation
Handout Rev 05-08-20

Slide 4: General Disclaimer
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This presentation is based on our current interpretations of the law, which may change after further SBA, IRS, or other guidance is issued. The information in this presentation may not constitute the most up-to-date information available. We continue to monitor the COVID-19 stimulus regulations, SBA guidelines, and IRS implications, and will be sending out other forms of communication as the situation unfolds.

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Slide 5: Tax & Legal Questions Disclaimer

- SBDC is prohibited from giving TAX or LEGAL advice.
- Any tax-related questions, accounting questions and specific questions about your individual company situation can only be answered with credible authority by your Accountant or Attorney.

Slide 8: PPP Considerations
Key Considerations:
1. Amount of Loan
2. Uses of the Funds
3. Forgiveness Rules
4. Unforgiven Balance Options

Loan Calculation
- Submit Payroll Documentation For Previous 12 Months
- EE Comp Limit $100,000
- Total Payroll
- 12 Months
- 2.5
**Slide 10: PPP Example**

![Example Diagram](image)

**Slide 11: PPP Uses**

**PPP may be used for:**

- Payroll costs - including benefits
- Interest on mortgages incurred before 2/15/20
- Rent, Leases in force before 2/15/20
- Utilities for which service began before 2/15/20

NOTE: At least 75% of the forgiven amount must have been used for payroll.
NOTE: Payroll costs are capped at $100,000 (for wages, tips and commissions) on an annualized basis for each employee.

**Slide 12: Loan Forgiveness**

**Payroll costs in the 8 weeks after funding**

Plus

**Mortgage interest, Utilities & Rent in the 8 weeks after funding**

Minus

**Reduced based on decrease in number of FTE Employees**

Minus

**Further reduced based on employee pay cuts > 25% for employees making less than $100K**
Slide 13:

NO reduction if all proceeds are used for forgivable purposes and employee headcount and compensation levels are maintained.

- PPP amounts provided to you that are used during the 8-week period from which you fund the following expenses:
  - Payroll costs (75%)
  - Amounts paid pursuant to obligations in effect on 02/15/2020 for:
    - Mortgage interest
    - Rent
    - Utilities

Statutory Reductions

- Decreases in number of FTE Employees
- Pay cuts greater than 25% for employees making < $100K

Slide 14:

PPP funds are to be used for specific purposes that mostly mirror the purposes eligible for forgiveness.

However it’s worth noting that paying interest on debts incurred before the covered period is an acceptable use of PPP funds, but those payments are not explicitly included in the use of funds eligible for forgiveness.

That means, presumably, that if the business used PPP funds to pay interest on debt, that amount would become part of a PPP loan. Check with your advisor.

The main reduction in forgiveness comes from drops in payroll based on the number of employees or salary/wages.

It’s going to get complicated here so be patient. please remember there is still some significant confusion around these provisions so do not rely on this information for decisions around hiring or rehiring employees.

Hopefully more guidance will be coming; in the meantime consult your legal or tax advisor.

Slide 15:

The eight-week period begins the date the lender makes the first disbursement of the PPP loan to the borrower.

It’s not the date you are approved for the loan,

though it’s worth noting that the SBA states once your application is approved the lender must make the first disbursement within ten calendar days.
**Slide 16: Loan Forgiveness Steps**

- You get a PPP loan.
- During the eight weeks after loan disbursement, you spend it on specific items (at least 75% of which is payroll related).
- After the eight weeks, you apply for forgiveness with your lender and provide required documentation.
- The lender has up to 60 days to respond to your request for forgiveness, and ideally agrees and the balance is forgiven.
- Any balance not forgiven will become a loan at 1% for up to 2 years.

*($421.02/mo per $10K of Unforgiven Amount (1% over 2 years)*

**Slide 17: Acceptable Uses of Funds for Forgiveness**

The CARES Act states, “An eligible recipient shall be eligible for forgiveness of indebtedness on a covered loan in an amount equal to the sum of the following costs incurred and payments made during the covered period.” These are summarized here as:

- Payroll costs: see explanation below

- Interest on a covered mortgage obligation
  A covered mortgage is a debt “incurred in the ordinary course of business that is a liability of the borrower; is a mortgage on real or personal property; and was incurred before February 15, 2020.

- Any payment on a covered rent obligation
  A covered rent obligation must be in force before February 15, 2020; and

- Any covered utility payment
  A “covered utility payment” means payment for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020;

Non-payroll expenses cannot account for more than 25% of the loan amount for forgiveness purposes

**Slide 18:**

Calculating the Maximum Other Costs:

• SBA Interim Final Rules state no more than 25% of the loan forgiveness amount may be attributable to non-payroll costs.

• This means that other costs can be up to 33% of payroll costs for the 8-week period.

  - Mathematically will result in the other costs being 25% of the loan forgiveness amount

Example:

Loan $200K, max Other = $50K, min Payroll = $150K, $50K/$150K = 33.33%
Slice 19: EXAMPLE 1

PPP Loan Received $200,000

75% of $200K = $150K (min Payroll required), 25% of $200K = $50K (max Other Costs allowed)
$50K/$150K = 33.33%

Actual Payroll costs in 8 weeks after disbursement $160,000 (which is more than the 75%)

Actual Other costs in 8 weeks after disbursement $100,000 (which is more than 25%)

Slide 20:

Example 1:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1) Loan Amount</td>
<td>$200,000</td>
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<tr>
<td>2) 8-Week Payroll Costs</td>
<td>$160,000</td>
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<tr>
<td>3) 8-Week Other Costs</td>
<td>$100,000</td>
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<tr>
<td>4) Eligible Other Costs Calculation</td>
<td>$53,334</td>
</tr>
<tr>
<td>5) Maximum Eligible Other Costs</td>
<td>$53,334</td>
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<tr>
<td>6) Total Eligible Costs for Forgiveness</td>
<td>$213,334</td>
</tr>
<tr>
<td>7) Maximum Forgiveness</td>
<td>$200,000</td>
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</table>

Slide 21:

Example 2:

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<tbody>
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<td>1) Loan Amount</td>
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<td>2) 8-Week Payroll Costs</td>
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<tr>
<td>3) 8-Week Other Costs</td>
<td>$200,000</td>
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<tr>
<td>4) Eligible Other Costs Calculation</td>
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</tr>
<tr>
<td>5) Maximum Eligible Other Costs</td>
<td>$80,000</td>
</tr>
<tr>
<td>6) Total Eligible Costs for Forgiveness</td>
<td>$320,000</td>
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<tr>
<td>7) Maximum Forgiveness</td>
<td>$320,000</td>
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</table>
Slide 22: Example 3:

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>1) Loan Amount</td>
<td>$500,000</td>
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<tr>
<td>2) 8-Week Payroll Costs</td>
<td>$400,000</td>
</tr>
<tr>
<td>3) 8-Week Other Costs</td>
<td>$100,000</td>
</tr>
<tr>
<td>4) Eligible Other Costs Calculation</td>
<td>$133,333</td>
</tr>
<tr>
<td>5) Maximum Eligible Other Costs</td>
<td>$100,000</td>
</tr>
<tr>
<td>6) Total Eligible Costs for Forgiveness</td>
<td>$500,000</td>
</tr>
<tr>
<td>7) Maximum Forgiveness</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

Slide 23: Allowed Payroll Costs

The CARES Act states that payroll includes:

- Salary, wages, commissions or similar compensation,

- Payment of cash tips or equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips),

- Payment for vacation, parental, family, medical, or sick leave;

- Allowance for dismissal or separation;

- Payment required for the provisions of employee benefits including insurance premiums;

- Payment of any retirement benefit;

- Payment of State or local tax assessed on the compensation of employees; plus For sole proprietors or independent contractors, wages, commission, income, or income from net earnings from self-employment, or similar compensation.
Slide 24: Unallowable Payroll Costs

It does not include:

The compensation of an individual employee in excess of an annual salary of $100,000, as prorated for the covered period;

Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020, including the employee’s and employer’s share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes, and income taxes required to be withheld from employees;

Any compensation of an employee whose principal place of residence is outside the United States;

Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act.

Also note that payments to independent contractors are not covered by payroll. Independent contractors should apply for PPP on their own.

Slide 25: Statutory Reductions

Reduction in Number of FTEs
- Numerator = Average FTEs, calculated by pay period, 8-week period post funding
- Denominator Option 1 = Average FTEs, calculated by pay period, by month, from 02/15/2019 – 06/30/2019
- Denominator Option 2 = Average FTEs, calculated by pay period, by month, from 01/01/2020 – 02/29/2020.

Slide 26 Use the data you already have – FTE Base

Calculate the average FTEs for

Option 1 and Option 2:
- Option 1: 02/15/2020 – 06/30/2019
- Option 2: 01/01/2020 – 02/29/2020

• Forecast 8-week covered period (date when loan was funded)

• Estimate the potential reduction based on any reductions on average FTEs
**Slide 27: Here is how Full Time Employees are Counted**

Full time employees that work at least 30 hours per week in any month are counted as one full time employee. This amount is added to the number of part time employees.

Part time employees are calculated by taking the hours worked by all part-time employees in a week and dividing that amount by 30.

Seasonal employees aren't counted in the calculation for those working up to 120 days in a year.

**ASSUMPTION: Part & Full time is based on ACA definition.**

**Slide 28: Reduction Based on Number of Employees (FTE)**

The idea here is that reduced headcount during the eight weeks after you get the loan may reduce the amount eligible for forgiveness.

Remember, the purpose of PPP loans is to help employers keep employees on the payroll.

Start with “...the average number of full-time equivalent employees per month employed by the eligible recipient during the covered period.” (Remember here the covered period as we understand it is the 8 week period after the loan is disbursed.)

The CARES Act also states that “the average number of full-time equivalent employees shall be determined by calculating the average number of full-time equivalent employees for each pay period falling within a month.”

**Slide 29: Reduction Based on Number of Employees (cont’d)**

Reductions in headcount under these calculations would result in a comparable reduction in the amount eligible for PPP forgiveness. Here’s how we understand it to work:

- You have 8 FTE employees during the covered period but before that (based on one of the other periods above) you had 10 FTE employees. 8 / 10 = .8
  Let’s say then you had $100,000 in PPP funds eligible for forgiveness including payroll, rent and utilities.
- You multiply $100,000 by .8 and you now have $80,000 worth of PPP loan funds eligible for forgiveness.
- That’s the idea. But in reality, many experts are grappling with the confusion around this calculation and the rehiring provision discussed in a moment. Consult your advisor and look for further guidance.
Slide 30: Reduction Based on Number of Employees (cont’d)

Then the business can choose to divide the number by either:

The average number of full-time equivalent employees per month employed by the eligible recipient during the period beginning on February 15, 2019 and ending on June 30, 2019; or

The average number of full-time equivalent employees per month employed by the eligible recipient during the period beginning on January 1, 2020 and ending on February 29, 2020; OR

In the case of a...seasonal employer (as determined by the Administrator) the average number of full-time equivalent employees per month employed by the eligible recipient during the period beginning on February 15, 2019 and ending on June 30, 2019.

You then multiply the amount eligible for forgiveness by that result.

Reference Material (31)

Here’s how to calculate FTEs (Based on the Affordable Care Act):

Full-time employees are those who worked on average 30 hours or more a week for more than 120 days in a year – or the number of employees you expect to work these hours.

Find out who should and should NOT be included in this calculation (next slide)

Part-time employees are those who worked on average less than 30 hours per week, but more than 120 days per year.

If the total number of hours worked isn’t a whole number, round it down to the nearest whole number.

Slide 32:

Example 4:

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
<th>FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Average FTEs - 8-Week Covered Period</td>
<td>200</td>
</tr>
<tr>
<td>2) Option 1 - Average FTEs – 02/15/2019 – 06/30/2019</td>
<td>225</td>
<td></td>
</tr>
<tr>
<td>3) Option 2 - Average FTEs – 01/1/2020 – 02/29/2020</td>
<td>210</td>
<td></td>
</tr>
<tr>
<td>4) Choosing Best Option – Calculate Headcount Reduction Percentage</td>
<td>95% 200 / 210</td>
<td></td>
</tr>
</tbody>
</table>
**Slide 33: Forgiveness Reduction Based on Reduction of Salary**

- Reduced by any reduction in salary of an employee that is in excess of 25% of the total salary of the employee during the most recent full quarter during which the employee was employed.
  - For most employees Q1-2020
  - Determined by employee
- Applies to any employees compensated less than an annualized rate of $100K in wages during any single pay period in 2019

**Forgiveness Reduction Based on Reduction of Salary (cont'd) (34)**

The CARES Act also states that, “[T]he amount of loan forgiveness under this section shall be reduced by the amount of any reduction in total salary or wages of any employee described in subparagraph (B) during the covered period that is in excess of 25 percent of the total salary OR wages of the employee during the most recent full quarter during which the employee was employed before the covered period.

An employee described in this subparagraph is any employee who did not receive, during any single pay period during 2019, wages or salary at an annualized rate of pay in an amount more than $100,000.”

**Slide 35: Forgiveness Reduction Based on Reduction of Salary**

The intent of this provision seems to be that forgiveness will be reduced if you reduce employee salaries (presumably those up to $100,000 since that’s what the cap is for forgivable salaries) by more than 25% during the 8 weeks after you get the PPP loan.

However, as experts have pointed out, the time period of eight weeks (the covered period - which is roughly two months) is different then the comparison period (the quarter before the covered period - which is roughly three months). And the way the $100,000 salary cap is described is confusing at best.

**Slide 36: Use the data you already have - Salary Reduction**

Schedule out Q1-2020 base wages and salaries by employee, not exceeding $100K

- Use base wages or salaries only
- Our interpretation is that this calculation only includes base wages and salaries
- Calculate any projected pay reductions during covered period
  - Use either the first payroll post-PPP funding or the most recent payroll available. (GUIDANCE NEEDED)
**Avoiding Statutory Reductions**

- Rehire employees that were furloughed, terminated, etc. between 02/15/20 and 04/26/20 (Rehire Eligibility Period)
  - Track FTE increase from rehired employees from 04/26/20 – 06/30/20.
  - Rehired employees are treated as being employed for entire period, eliminating the impact of averaging.

- Employer can restore reductions in salary/wages
  - Employees who may have been reduced greater than 25% can be put back to less than 25% reduction.

**How does Rehiring Work?**

The CARES Act includes a rehiring provision for those who have laid off workers. However, there is a great deal of confusion about how this provision works in conjunction with the ones we’ve just covered and additional guidance from the SBA is needed.

The basic premise appears to be that if, during the period of February 15, 2020 and April 26, 2020 (30 days after the CARES Act became law) the business reduces the number of full-time equivalent employees or salaries or wages as compared to February 15, 2020 and then eliminates the reduction by June 30, 2020 then there is an exemption to the reduction.
Slide 40: How does Rehiring Work?

Question: Will a borrower’s PPP loan forgiveness amount be reduced if the borrower laid off an employee, offered to REHIRE the same employee, but the employee declined the offer?

Answer: No. SBA and Treasury intend to issue an interim final rule excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the CARES Act’s loan forgiveness reduction calculation.
- The interim final rule will specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee’s rejection of that offer must be documented by the borrower.
- Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.

Slide 41: Payroll and Forgiveness For the Self Employed
- Self-employed individuals without any employees who file IRS Form 1040 Schedule C calculate payroll differently.
  - Use the net profit for the business from 2019 as reported on line 31 of Schedule C.
  - Using up to $100,000 of net profit, divide that amount by 12 to get the average monthly net profit, then multiply by 2.5 to get the maximum loan amount.

(Note you do not have to file your 2019 tax return before you apply, but the SBA says you must complete it.)

Slide 42: Payroll and Forgiveness For the Self Employed
For forgiveness, that same document provides the following guidance:
“The amount of loan forgiveness can be up to the full principal amount of the loan plus accrued interest. The actual amount of loan forgiveness will depend, in part, on the total amount spent over the covered period on:
Payroll costs including salary, wages, and tips, up to $100,000 of annualized pay per employee (for eight weeks, a maximum of $15,385 per individual),
As well as covered benefits for employees (but not owners), including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums);

Slide 43: Payroll and Forgiveness For the Self Employed
Owner compensation replacement, calculated based on 2019 net profit ... with forgiveness of such amounts limited to eight weeks’ worth (8/52) of 2019 net profit,
- But excluding any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of the Families First Coronavirus Response Act
(FFCRA) or qualified family leave equivalent amount for which a credit is claimed under section 7004 of FFCRA;
- Payments of interest on mortgage obligations on real or personal property incurred before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business mortgage payments);

**Slide 44: Payroll and Forgiveness For the Self Employed**

- Rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business rent payments);
- Utility payments under service agreements dated before February 15, 2020 to the extent they are deductible on Form 1040 Schedule C (business utility payments).

**Slide 45: Payroll and Forgiveness For the Self Employed**

Note in particular that the SBA says the owner’s compensation portion of the loan here is limited when it comes to forgiveness:

“It is appropriate to limit the forgiveness of owner compensation replacement for individuals with self-employment income who file a Schedule C to eight weeks’ worth (8 divided by 52) of 2019 net profit...

This is because many self-employed individuals have few of the overhead expenses that qualify for forgiveness under the Act.

For example, many such individuals operate out of either their homes, vehicles, or sheds and thus do not incur qualifying mortgage interest, rent, or utility payments. As a result, most of their receipts will constitute net income.”

If that leaves you confused as to whether a self-employed individual can or cannot include qualified mortgage interest, rent or utility expenses in their forgiveness calculation you’re not alone.

Tony Nitti, CPA, has written in a detailed Forbes article that “I would argue that the additional costs - mortgage interest, rent, utilities - are still eligible for forgiveness” but goes on to state it’s not completely clear.

**Slide 46:**
You apply for Forgiveness through the lender who gave you your PPP loan.

**Slide 47: Forgiveness Application**

Banks are likely waiting on forgiveness regulations before they notify borrowers what will be required.
- Submitting an application with clean and comprehensible supporting documentation is going to move your forgiveness process along quicker.
- Provide the bank with your loan forgiveness calculation and supporting documentation for your calculation.
Slide 48: Forgiveness Application Documentation

The CARES Act states that you must submit the following to your lender with an application requesting forgiveness:
Documentation verifying the number of full-time equivalent employees on payroll and pay rates for the period described in subsection (d)*, including:
   Payroll tax filings reported to the Internal Revenue Service;
   AND
   State income, payroll, and unemployment insurance filings;
   Documentation, including canceled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments;

Slide 49: Forgiveness Application Documentation

- Loan Forgiveness Calculation
- Payroll Costs
  - 8-Week Payroll Costs
  - Form 941
- Other Costs
  - Mortgage statements and interest payments
  - Rental payments (possibly rental agreements)
  - Utility statements and payments
- FTE
  - Calculation for Option 1 or Option 2
- Salary Reduction
- Calculation of salary reduction by employee

Forgiveness Application Documentation (50)

A certification (stating) that—
The documentation presented is true and correct; and
The amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments; and
Any other documentation the Administrator determines necessary.

Important: The CARES Act states that, “No eligible recipient shall receive forgiveness under this section without submitting to the lender that is servicing the covered loan the documentation required…”

*subsection (d) is the section that includes all the calculations regarding reductions in salary and wages and/or full-time equivalent employees.

Slide 51: Forgiveness Application Documentation Self Employed

In the guidance for the self employed, the SBA states:
“[I]f you have employees, you should submit Form 941 and state quarterly wage unemployment insurance tax reporting forms or equivalent payroll processor records that best correspond to the covered period with evidence of any retirement and health insurance contributions.

“Whether or not you have employees, you must submit evidence of business rent, business mortgage interest payments on real or personal property, or business utility payments during the covered period if you used loan proceeds for those purposes.

Forgiveness Application Documentation Self Employed (52)

In the guidance for the self employed, the SBA states:

“The 2019 Form 1040 Schedule C that was provided at the time of the PPP loan application must be used to determine the amount of net profit allocated to the owner for the eight-week covered period. … (For) purposes of loan forgiveness it is appropriate to require self-employed individuals to rely on the 2019 Form 1040 Schedule C to determine the amount of net profit allocated to the owner during the covered period.”

Employment Taxes and Forgiveness (53)

The SBA provided the following guidance on how a borrower should account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven:

“Under the Act, payroll costs are calculated on a gross basis without regard to (i.e., not including subtractions or additions based on) federal taxes imposed or withheld, such as the employee’s and employer’s share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees.

As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer, but payroll costs do not include the employer’s share of payroll tax.

Employment Taxes and Forgiveness (54)

For example, an employee who earned $4,000 per month in gross wages, from which $500 in federal taxes was withheld, would count as $4,000 in payroll costs. The employee would receive $3,500, and $500 would be paid to the federal government.

However, the employer-side federal payroll taxes imposed on the $4,000 in wages are excluded from payroll costs under the statute.”
**Slide 55: What if I don’t Get it All Forgiven?**

Any balance remaining becomes a loan with a 1% interest rate and a two-year repayment period.
- Payment must begin six months from disbursement of the loan.
- Interest on the unforgiven balance is accrued from that date (though it does not have to be paid until six months from the disbursement date).

**Slide 56: Fund Tracking (Recommendation)**

- Separate bank account
- Tracking payments with loan proceeds for
  - Payroll costs
  - Other costs

**Slide 57: Forecast maximum eligible loan Forgiveness - Payroll**

- Calculate expected total payroll costs during 8-week covered period.
  - Same payroll costs as maximum loan application
- Use either the first payroll post-PPP funding or the most recent payroll available. (GUIDANCE IS NEEDED)
- Remove pay that is inconsistent from payroll to payroll
  - Overtime, tips, commissions, severance
  - Exclude:
    - Salary amounts greater than $100,000
    - Leave covered under FFCRA
    - Reimbursements
    - Non-U.S. Residents

**Slide 58: Forecast maximum eligible loan Forgiveness - Other Costs**

- Maximum other costs for forgiveness = 33% of 8-week payroll costs

- Likely only two months should be included (GUIDANCE NEEDED)
  - Mortgage Interest
    - INTEREST that will be paid (no interest that will be Deferred or forgiven)
  - Rental Payments
  - Utilities

**Slide 59:**

EIDL vs PPP
Unemployment (PUA) vs PPP

**Slide 60: EIDL vs PPP**

Can get BOTH EIDL & PPP

Economic Injury Disaster Loan (EIDL): Loans through the SBA up to $2M, 30 year term, 3.75% interest plus up to $10K Grant. CARES Act Authorized.
- Cost $45.31/mo per $10K of Loan (3.75% over 30 years)
- If you USE EIDL for Payroll reduces forgiveness of PPP by amount used for Payroll
- Can roll EIDL into PPP.
- Amount of Advance Grant (up to $10K) reduces forgiveness of PPP by amount of Advance Grant

Paycheck Protection Program (PPP): SBA loan program through Banks, to protect jobs & maintain payroll, up to $10M, 2 year term, 1% interest with a forgiveness provision if funds used for 8 weeks of payroll plus other allowed costs. CARES Act Authorized.
- Cost $421.02/mo per $10K of Unforgiven Loan (1% over 2 years)

**Slide 61: PUA vs PPP**

**NM PUA eligibility:**

Self-Employed, Independent Contractors, Sole Proprietors, One Person LLCs and GIG Economy Workers (CARES ACT).

Are Eligible to receive PUA retroactive to 3/29/20 through 7/31/20

CAUTION: If you draw PUA you are not eligible for PPP
Any Employees drawing PUA do not count in FTE for PPP

**NM Workforce Solutions Notice:**

ANNOUNCEMENT: The application for Pandemic Unemployment Assistance (PUA) will be available on 4/26/2020. Self-employed, independent contractors, and gig economy workers should begin the process now by applying for regular UI benefits. More info in FAQs at [http://www.dws.state.nm.us/COVID-19-Info](http://www.dws.state.nm.us/COVID-19-Info)

**Slide 62:**

**FREQUENTLY ASKED QUESTIONS**

**Slide 63:**

**FAQ 1:** How do we determine FTE count for the workforce reduction calculation?

Average number of FTEs for each pay period, within a month. FTE is not defined in the CARES Act or the Interim Final Rules.

We anticipate the SBA will adopt the definition of FTE from the Affordable Care Act. FTE calculated using a 30-hour work week for “full-time.”

**Slide 64:**

**FAQ 2:** What does “costs incurred and payments made during the covered period” mean for loan forgiveness?

The SBA needs to further define this, as we are uncertain if costs incurred means accrued for expenses or cash payments made.
This could have a tremendous impact on the front-end and/or back-end.

We are waiting for more guidance. Stay tuned!

**Slide 65:**
FAQ 3: Which employees are counted for the purposes of the salary reduction?
Only the employees who earned, during any single pay period in 2019, at an annualized rate of pay, an amount less than $100,000.

**Slide 66:**
FAQ 4: Are payroll and other costs paid with forgiven PPP proceeds deductible?
The CARES Act states that amounts forgiven on a PPP loan are excluded from gross income.

However, IRS code does not allow a deduction for expenses “allocable” to tax-exempt income.

This would be considered “double dipping.”

Additional guidance is a must!

**Slide 67:**
FAQ 5: My business is not an essential business, so can I use my PPP proceeds once shelter-in-place orders are lifted?
Likely, no. The 8-week period begins on the date the PPP funds are received.

You may need to pay employees not to work. You will need to forecast your payroll costs to make this determination.

**Slide 68:**
FAQ 6: My business leases space from an entity I owe personally. Are these lease payments allowable costs under PPP?
Yes. The CARES Act did not distinguish between third party rentals and self-rentals.

Expect SBA to provide safeguards or additional guidance to ensure rents do not increase during the 8-week period.

**Slide 69:**
FAQ 7: If I have employees voluntarily leave the company, will that impact my FTE calculation?
Yes. This would be considered a reduction in FTE.

This is why forecasting is a must to see if you have any room in your FTE calculation for voluntary departures.

Also, consider replacing the employee before 06/30/2020.
**Slide 70:**
FAQ 8: I'm using some independent contractors (1099). Can I convert them to W-2 employees?
We would caution you taking an independent contractor (IC) and converting them to an employee without a significant change in the relationship.

**Slide 71:**
FAQ 9: I am concerned my loan will not be 100% forgivable. Can I repay it?
- Yes, you can repay the PPP loan without a prepayment penalty.
- Any amounts that are not forgiven convert to a two-year term loan at a 1% interest rate.

**Slide 72: What You Can Do NOW (3 Actions)**

**Carefully document how you spend your PPP loan proceeds.** This is no time for sloppy record-keeping.

Make sure you keep this documentation where you can access it when you apply for forgiveness, as well as in the future if the government decides to audit those who received funding under this program.

**Slide 73: What You Can Do NOW (3 Actions)**

**Consult your tax, legal or financial adviser** If you have any questions about whether and how to qualify for forgiveness, get professional advice.

- Many CPAs and attorneys have questions about these issues too.
- This program relies largely on self-certification from borrowers, so documenting your efforts to get assistance from an advisor who works for you may be helpful if questions arise later.
- Keep an eye out for additional guidance. Hopefully the SBA will further clarify these issues.

We’ll do our best to update this presentation as that information becomes available, and you can subscribe to SBA emails for more information as well.

**Slide 74: What You Can Do NOW (3 Actions)**
Contact your elected officials. PPP is part of the SBA program which is a federal program.
Every Senator and Representative in Washington has staff members whose jobs are to assist with constituent problems with federal programs.
Let them know the specific issues you and your advisors are grappling with and ask for help. It’s imperative they understand the areas in which small business owners need guidance.

**Slide 75: Example Time Line**
Example Time Line

Got PPP
1 May

8 Weeks
26 Jun

PPP
Employment
Deadline
30 Jun

Apply for
Forgiveness
1 July

Lender 60
days to
process
1 Sep

May       Jun       July       Aug       Sep