

# Frequently Asked Questions: PPP Loan Forgiveness Application

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## Q: What new information is in the PPP loan forgiveness application released by the SBA on 5/15/2020?

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We have gained clarity in four areas:

1. Loan Period
2. Paid vs. Incurred payroll
3. Non-payroll costs
4. Full-time Equivalent calculation

## Q: What is the Loan Period?

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The loan period has been made more flexible. The borrower can choose one of two options for the covered period for forgiveness:

1. The 56 days (8 calendar weeks) following the disbursement of your loan. (This is called the covered period)
2. Or the first day of the pay period immediately following the disbursement of your loan. (This is called the Alternative Covered Period) and will end on the 56th day after.

The SBA has not extended any covered period beyond 8 weeks (i.e., 56 days) at this time.

## Q: How does Paid and Incurred payroll work?

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Both methods can be used in combination to maximize forgiveness.

- **Paid payroll.** These are funds disbursed to employees during the loan period regardless of when the hours were worked. Example: I pay my employees on May 22nd for work that was completed between May 11th-15th.
- **Incurred payroll.** This is payroll that has been earned during the loan period, but not paid to employees in the loan period, but will be paid on the next payroll date after the loan period is over. Example: My loan period ends May 27th but I don't pay until May 29th. You can include the pay earned through May 27th paid on May 29th.

## Q: What are the clarifications for Non-payroll costs that can be included for forgiveness?

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There are three points of clarification:

1. **Mortgages:** Interest payments on business mortgages when the mortgage started before 2/15/20. Payments on the principal amount a loan of are not allowed. Note: This includes mortgage interests on both real property and personal property (e.g., equipment, vehicles like golf carts, fleet of trucks)
2. **Rents:** Rent payments pursuant to a lease that was in force prior to 2/15/2020
3. **Utility:** Utility payments: Gas, Water, Electricity, Transportation (fuel for business vehicles), telephone or internet access. Service must have been in place prior to 2/15/2020.

All have to be paid during the Covered Period (NOT the Alternative Covered Period), or incurred during the Covered Period and paid prior on the next regularly scheduled billing date. This means that you can pre-pay expenses for the next billing cycle after the Covered Period if you do so during the Covered Period. Note: Alternative Covered Period only applies to payroll costs.

## Q: What has changed regarding Full-Time Equivalent employees?

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We learned the specific method and measurement periods to calculate your FTE total. There are two options for Calculating FTE during the Covered Period or Alternative Covered Period.

- **Option 1:** Use average number of hours paid per week divided by 40, capped at 1.0. For each employee, take the average number of hours paid per week, divide by 40, and round the total to the nearest tenth.
- **Option 2:** Count all employees who work 40/week or more hours as 1.0 and anyone below that at 0.5.

The borrower has their choice of Reference Period, **either** (i) February 15, 2019 to June 30, 2019; (ii) January 1, 2020 to February 29, 2020; **or** (iii) in the case of seasonal employers, either of the preceding periods or a consecutive twelve-week period between May 1, 2019 and September 15, 2019.

You will use the Pre-COVID period, now known as the Reference Period, to compare your Reference Period FTE count to your Loan Covered/Alternate Period FTE count.

## Q: Are there any adjustments to FTE count we can make for employees returning to work, voluntary quits, or hires I bring back later?

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Yes, there are several Safe Harbors to give you more flexibility in your FTE calculation to help you maximize your forgiveness.

- **FTE Reduction Safe Harbor (Total Reduction).** If the borrower is able to restore its FTE count to pre-COVID level by June 30, 2020, the borrower is exempt (not penalized) from reduction in loan forgiveness under FTE reduction provision. To meet this Safe Harbor, the borrower must satisfy two requirements:
  - Borrower reduced FTE employee levels between 2/15/20 and 4/26/20; and
  - Restored FTE levels by not later than 6/30/2020 to the Borrower's FTE level in the pay period that includes 2/15/2020.
  
- **FTE Individual Reduction Exception (Safe Harbor).** Any individual who falls within any of the following categories will not be considered as an FTE reduction:
  - Employee who rejected a good-faith, written offer to rehire during the Covered or Alternative covered period;
  - Employee who were fired for cause or voluntarily resigned; or
  - Employee who requested a reduction in hours.

## Q: Will the 8 week Covered/Alternative Covered Period be extended?

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We are still researching and following the new and legislative updates on whether the covered period will be extended beyond 8 weeks. There are several proposals being discussed and there is a bi-partisan movement in Congress to create an extension to the 8 weeks. ProService will bring this updated information to you as soon as it becomes available.

## Q: When is the Forgiveness Application due? Is this the final application?

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There aren't any official due dates yet. If we receive final guidance from the SBA and the Treasury Department, the soonest that borrowers may apply would be after the Loan Period has ended or after the June 30th Safe Harbor date, if any Safe Harbor methods are used. We don't have any insight into the number of days after the loan period or Safe Harbor date that an application would be due by. We expect that the Application may change, based on any congressional changes.

## Q: What other information are we still in need of?

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We are still pending guidance release and researching if there will be any further changes to the ratio of payroll to non-payroll costs, if banks will have software to assist with the forgiveness calculation, and if there will be any further clarification on payroll or non-payroll costs to include or exclude.

## Q: How do I calculate forgiveness based on the application?

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To calculate your forgiveness, complete the application and the Schedule A/Worksheet in the application. To make it easier, here is an overview:

### **Step 1: Gather your payroll and non-payroll costs**

### **Step 2: Wage reduction is on a per EE basis**

- Only EEs where there is a reduction of more than 25% in wages
- Verify wage safe harbors
- Reduction (after safe harbor) is delta between what was actually paid and what the EEs would have been paid if they had only a 25% reduction in wages

### **Step 3: FTE calculation**

- As discussed in Questions 5 and 6 above, calculate your FTEs
- 40 hours or more per week = 1 FTE
- For PT EEs you can use one of 2 methods for anyone not working 40 hours per week
- Count as each as a fraction of an FTE rounded to the nearest 10th
- Count each .5 of an FTE
- Make adjustments for Safe Harbor
- Continue to include in FTE count any EEs not returning to work by their choosing
- Continue to include in FTE count any EEs voluntarily departing
- Determine your % reduction of FTEs by comparing the FTE count to your chosen reference period.

### **Step 4: Determine your Blended Wage and FTE Reduction Amount**

- Take your Allowable Forgiveness Expenses (#1, above) and subtract Total Salary/Wage Reductions (#2, above).
- This gives you one amount of forgiveness

### **Step 5: Determine your Potential Forgivable Amount based on the 75% expenditure requirement on payroll.**

- Divide your eligible payroll costs during chosen Covered Period by .75.
- This is your alternate amount of forgiveness

### **Step 6: Your forgivable amount**

- Your Forgivable Amount will be the lower of your (a) Blended Wage and FTE Reduction Amount and (b) Potential Forgivable Amount