



RESPOND → PLAN → RETURN STRONGER

Navigating the New Guidance on PPP Forgiveness

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Opening Notes

- Run your business, take care of your business, yourselves, your employees and your customers
- Caveats
 - Things continuing to evolve
 - Unanswered questions
 - Congressional, court, OIG and SBA changes
 - Possible simpler application for smaller loans
 - Work with your lender
 - Start early on gather documentation

General Forgiveness Information

- A minimum of 75% of your PPP loan should go towards eligible payroll or Owner Compensation Replacement to be eligible for forgiveness
- The remaining up to 25% should go to eligible expenses
 - Rent/Lease for contracts in effect prior to February 15, 2020
 - Utilities for contracts in effect prior to February 15, 2020
 - Interest on Mortgages (no principal or prepayments) in effect prior to February 15,2020
- Maintain employee headcount or restore employee headcount by June 30, 2020 under safe harbor
 - Borrowers can use the period 2/15/19 – 6/30/19 or 1/1/20 – 2/29/20
- Salary for each employee must remain at 75% compared to 1/1 – 3/31 2020

What Constitutes “Payroll Expense”

- Amounts paid to W2 Employees (taxes withheld from paycheck)
- Salary, Hourly Wages, Commissions or Similar, Cash Tips or Equivalent, Payment for Leave, Sick Time, Paid Time Off
- Employee Benefits Payments Including Group Healthcare Coverage and Retirement Contributions
- Company side Payments of State and Local Taxes
- Owner Compensation Replacement
 - Limited to 8/52 of 2019 Schedule C Line 31 Net Profit
 - Take Schedule C Line 31 Net Profit, Multiply by 8, and divide by 52



What Payroll Expenses are Not Allowed

- Compensation in excess of \$100,000 per year per employee, prorated
 - \$15,385 max per employee over the 8-week period
- Compensation to individuals whose principal residence is outside of the US
- Compensation paid to 1099 contractors
- Employer portions of Medicare, Social Security, and FUTA

Payroll FAQ's

- Can a borrower pay hazard pay or a bonus for frontline workers?
Guidance states that a decrease in wages of 25% will decrease forgiveness, however, current guidance does not prevent an increase in pay as long as it does not increase the employee's compensation over \$100,000 annually
- Can a borrower pay employees even if there is not work or move the employee to another position?
Guidance does not prevent borrowers from paying employees to take alternate positions within the company or work alternate schedules or hours as long as wages are not decreased more than 25% than the employees average pay from Q1 2020 (Jan 1, 2020 – March 31, 2020)

Payroll FAQ's

- Can I use PPP funds to cover a payroll in which workers have not yet received pay?
 - Guidance states that payroll amounts paid on wages earned OR paid during the 8-week period are eligible for forgiveness
 - For example, wages PAID for hours worked in the pay period prior to the PPP funding are eligible for forgiveness
 - For example, wages EARNED for hours worked prior to the end of the 8 weeks but not paid until after the end of the 8 weeks are eligible for forgiveness
- Is backpay an eligible use of PPP funds?
 - You can use the PPP loan funds to pay back-pay since it is an allowable use of loan proceeds, however, it will likely not be eligible for forgiveness

Payroll FAQ's

- What if an employee does not want to return to work, or I need to fire someone for cause?
 - If you make a good faith written offer to an employee and they reject the offer, document this in writing and your forgiveness will not be impacted
 - If you need to terminate an employee for cause, document this in writing and your forgiveness will not be impacted
- Can I hire new/additional employees and be eligible for forgiveness?
 - Yes, new employee payroll earned/paid during the 8-week period is forgivable
 - ** (Expansion suggests loan not needed)

Payroll FAQ's

- How is the FTE calculation determined?
 - For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower

Other Expenses Eligible for Forgiveness

- What is considered in the rent/lease payment?
 - Any amounts that are included in a lease agreement, such as monthly rent, sales tax, CAM charges, etc.
- Can a home office be considered in loan forgiveness?
 - The expenses for home office that are eligible for PPP forgiveness are mortgage interest, utilities, and rent.
 - There must be a designated area in the home that is used only for business for this to apply.
 - These expenses are prorated based on the percent of space used as home office. Even if the sole proprietor did not claim these expenses in 2019, (s)he may do so for the PPP forgiveness.

FYI - The expenses claimed on PPP cannot be claimed on 2020 tax returns

Other Expenses Eligible for Forgiveness

- What is considered a utility?
 - Water & Sewer
 - Electricity
 - Telephone (including cell phone)
 - Internet
 - Gas
 - Transportation
- Must have been on contract prior to February 15, 2020

Other Expenses Eligible for Forgiveness

- Are the following considered utilities?
 - Janitorial/Cleaning Services – NO
 - Pest Control – NO
 - Grease Trap Removal – NO
 - HOA/Association Fees – NO
 - Insurance Costs – NO
 - IT Services - NO
- Is mileage/gas for vehicles forgivable?
 - Currently guidance allows for gas used for business vehicles for self-employed individuals, however we are waiting for more specific guidance on this issue

Other General Q&A

- Is my PPP loan forgiveness taxable through The IRS?
 - No, however, any expenses paid by PPP funds are ineligible to be claimed as deductions on your 2020 tax return. Speak with your accountant for more details.
- When does the 8-week loan period start?
 - The date funds are deposited into your account. Alternate period for payroll available.
- Can I use more than 75% on payroll?
 - You must use at least 75% on eligible payroll expenses, however, you can use 100% of the loan for W2 payroll (excluding owner compensation)
- Am I required to have a separate bank account?
 - This is a recommendation to keep clean, easy records but not a requirement

Other General Q&A

- How are EIDL advances accounted for?
 - According to The SBA forgiveness application, Note: If applicable, SBA will deduct EIDL Advance Amounts from the forgiveness amount remitted to the Lender
 - We are awaiting further guidance on this issue
- Are the self employment benefits paid by owners forgivable?
 - No, health insurance and retirements benefits for Schedule C filers are not eligible for forgiveness

General Forgiveness Process

- During week 7 you will receive a notification to start your SBA forgiveness application
- After forgiveness amount is determined, any unforgiven portions can be:
 - Paid back at any point through an ACH from your checking account on record
 - Paid back over the two-year term at 1% after the 6-month deferral period
Still restricted to allowable uses (payroll, mort int, rent, util + int on other debt)

Documentation

- What documents will I need to be prepared to provide with my forgiveness application?
 - Copies of bank statements over the 8-week period
 - Payroll reports
 - Employee Paystubs
 - Copies of invoices and checks
 - Copy of 2019 Schedule C for Self employed individuals
 - Copies of leases and utility contracts
 - Written documentation of employees that refused to return to work

Live Q&A Session

More information is expected to be released by The SBA in coming weeks