

Navigating PPP Loan Forgiveness Strategies

What Makes Most Sense for You

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Disclaimers

The content of this presentation is for informational purposes only. If you have specific questions about the practices of your organization, you should contact an attorney for advice.

The material presented in its entirety is our best understanding at the time of the presentation.

The materials and presentation are not intended to offer legal or financial advice.

Affirmation (After the Disclaimer): Why I am Offering This Webinar

I am neither an attorney or an accountant. I am an educator, an owner of a child care center and preschool, determined to keep my center open. To do so, with little guidance available, there is much I have had to learn.



WHEN YOU LEARN, TEACH.
WHEN YOU GET, GIVE.

MAYA ANGELOU (1928-2014)

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PPP Forgiveness Journey

In this presentation, we will walk through the PPP forgiveness application with Happy Days Day Care; a fictional center I have created as a case study.

We'll view three different business/forgiveness strategies they use, and the outcomes of each. Throughout consider your business/loan strategy and how it will help you both survive this crisis and strive to come through stronger.

Get ready - get yourself a copy of the SBA forgiveness application on the Small Business Administration's website. For easy access use this link:

<https://www.sba.gov/sites/default/files/2020-05/3245-0407%20SBA%20Form%203508%20PPP%20Forgiveness%20Application.pdf>

Note: Your forgiveness application will be with the lender that gave you the PPP. It may be somewhat different from what the SBA asks. The SBA application will still help you prepare.

Paycheck Protection Plan (PPP) Loans - A Quick Review

PPP Loans are:

- SBA-guaranteed loans for up to about 2.5 months of payroll (capped at \$10 million). Individual employee earnings above \$100,000 don't count as payroll.
- SBA loan principal and interest should be forgiven if the business spends 75 percent of the funds on payroll (which is also defined to include costs like benefits) and the rest on mortgage interest, rent or utilities during the eight-week period immediately after the loan
- Decreases in full time employee headcount and pay cuts of more than 20% after June 30 reduce the proportion of the loan that can be forgiven
- Sums not forgiven need to be repaid over 2 years at 1% interest

Changes Are Likely Coming

On May 21, the U.S. Chamber of Commerce and more than 130 other trade groups asked congressional leaders, Treasury Secretary Steven Mnuchin, and Small Business Administration Administrator Jovita Carranza for three changes to the Paycheck Protection Program as a result of the extended challenges for small businesses.

1. End the Small Business Administration's "75%-25% rule," and give businesses more flexibility in spending loan proceeds
2. Let businesses spend the money over a longer period than the first eight weeks of the loan's life and still have it forgiven, and
3. Extend the June 30 safe harbor date for rehiring and restoration of pay

In the House - Paycheck Protection Plan Flexibility Act

On Thursday, May 28, 2020, the U.S. House of Representatives passed H.R. 7010 by a vote of 417-1. The bill that would provide businesses greater flexibility in spending (PPP) loan proceeds while still allowing those expenses to qualify for loan forgiveness.

The House bill would amend the PPP to provide businesses the following relief:

- Allowing **up to 40%**, instead of the current 25%, of the loan to be spent on qualified **non-payroll items** (rent, mortgage interest, and utilities)
- Extending the time period from the current 8 weeks to **24 weeks to spend the loan proceeds**
- Increase the time in which the loan must be **repaid to 5 years** from 2 years.
- Permit businesses seeking loan forgiveness to **continue to defer payroll taxes** without penalty through the end of 2020
- **Extend the rehiring** safe harbor from June 30, 2020, to **December 31, 2020**.
- Provide **exemptions in eligibility** for loan forgiveness for employee unavailability, and for the inability to return to the same level of business due to compliance with certain COVID-19- related orders or other circumstances.

In the Senate - Paycheck Protection Plan Flexibility Act

The Senate is deliberating, seeking a vote potentially as early as this week (week of June 1). A Senate version **might** include some differences from the House bill. **Although it is closer to looking like House version will pass.**

Possible differences in the Senate version from the House version of the bill include:

- **Keeping the requirement to spend 75% of loan proceeds on payroll** - not reducing that requirement to 60% as in the bill passed by the House.
- Could extend time to use loan to **16 weeks instead of 24 weeks to spend the loan**
- Allowing businesses to **spend the money on personal protective equipment and other infection-preventing investments**, provisions that aren't in the version passed by the House.

If the Senate passes its own version, a conference committee may be called to resolve the differences between the House and Senate versions. Alternatively, the Senate could choose to pass an amended version of the House bill, which would then return to the House for additional votes. The bill would then need to be signed by the President

A Very Important Note - Not Widely Shared

Senator Marco Rubio of Florida, who chairs the Senate Committee on Small Business and Entrepreneurship, said Monday that he will support the House bill in the Senate because “it’s better than not doing anything.” But he added that “people need to know that the way the Treasury has told us they are going to interpret that bill — **if you don’t spend 60% of your money on payroll, if you only spend 59.9%, you will get zero forgiveness.**” (marketwatch.com)

“There’s some issues with it that are going to cause people problems, and I just want everybody to know that ahead of time,” Rubio also said. “I think still we’re better off passing it than not passing it.”

When Will You Find Out About Loan Forgiveness

The deadline to apply for forgiveness is unclear, but the form carries an Oct. 31 expiration date.

Your lender has up to 60 days to make a decision after you apply for forgiveness. The SBA has 90 days to pay back the lender after that call has been made.

So, it could be up to 5 months from submitting your forgiveness application to receiving an answer.

Note: If your lender incorrectly deems you to not deserve forgiveness, you can appeal to the SBA.

Now Meet Happy Days Daycare Center

Happy Days Daycare Center, located in Westchester County, NY, serves infants, toddlers, and preschoolers.

Happy Days employees 14 Staff Members, including:

1 Director

1 Assistant Director,

3 full time Head Teachers,

6 full time Assistant Teachers

3 half time Floaters.

Federal Loans Received

Payroll Protection Loan: Happy Days Daycare received a Paycheck Protection Plan loan for \$85,467.98

EIDL (Emergency Injury Disaster Loan): Happy Days Daycare received an EIDL advance of \$10,000
(EIDL advances are \$1,000 per employee up to a maximum of \$10,000)

Payroll Information

Director \$55,000 per year (\$4,583.33 per month)

Assistant Director \$17 per hour (\$2,720 per month)

Director and Assistant Director receive health insurance - total cost of health insurance per month \$1,443.86

3 Head Teachers: \$16 per hour each (\$8,640 per month)

6 Assistant Teachers: \$14 per hour each (\$13,440 per month)

3 - ½ time floaters: \$14 per hour each (\$3,360 per month)

Total Average Monthly payroll: \$34,187.19 (Loan 2.5X this amount)

More Expense Information

2019 Owner Pay: \$45,000

Owner Family Health Insurance: \$2,057.49 per month.

Prorated for 8 week period owner pay: \$7,500 Health - \$4,114.98

Total: \$11,614.98

Maximum forgivable amount for owners' compensation is: \$15,385

State and Local Taxes: \$3,914.62 per quarter (reported quarterly: second quarter is April-June; third quarter is July-September)

Rent: \$10,500 per month (**Note: Could be Mortgage interest** if relevant)

Utilities: \$1500 per month

Three Business/Forgiveness Strategies

Strategy One:

Furlough all staff, use the PPP as a loan. \$10,000 EIDL advance is kept as a grant.

Strategy Two:

Pay everyone their regular salary, and have the entire loan forgiven, minus the \$10,000 EIDL advance.

Strategy Three:

Pay the staff needed to run the center, inviting staff back as enrollment warrants. The loan will be partially forgiven, minus the \$10,000 EIDL advance.

In all three strategies, you can give bonuses or raises, capped at \$15,385 per employee during the 8-week covered period.

The Application

What does the forgiveness application look like given each of the three strategies?

Let's review the application - best if you have a copy in front of you.

Pages One and Two: Instructions (Read before starting application, and then again as you complete the application)

Page Three: Forgiveness Calculation form.

The Application: Page Three

Basic Business Information

Business Name: Happy Days Day Care

DBA: N/A (this is if you have a legal "Doing Business As" form)

Business Address: 123 Main Street, Westchester Town, NY 45678

Business EIN: 87-1234567

Business Phone: 914-789-1234

Primary Contact: Jamie Jones

Email Address: jamie@happydaysdaycare.com

The Application: Page Three

Loan Information

SBA PPP Loan Number: 9876543219

Lender PPP Loan Number: 123456789012

PPP Loan Amount: \$85,467.98

PPP Loan Disbursement Date (the day the funds were deposited in your bank account): April 30, 2020

The Application: Page Three

Number of Employees

Employees at Time of Loan Application - April 6, 2020

Strategy One: 0 - everybody furloughed

Strategy Two: 12.5 full time equivalents - everybody working

Strategy Three: 4 full time equivalents (enrollment has dropped substantially and much of the staff has been furloughed. Note - this could be a different number. It is an example)

The Application: Page Three

Employees at Time of Forgiveness Application - June 30, 2020

Strategy One: 0 (Center is still closed)

Strategy Two: 12.5 (Everybody is still working)

Strategy Three: 9 (Center is bringing staff back as enrollment warrants.)

The Application: Page Three

EIDL Advance Amount: \$10,000

EIDL Application Number: 3312345678

Payroll Schedule: Biweekly (every other week)

The Application: Page Three

Covered Period: April 30 to June 24

Alternative Covered Period, if applicable: May 4 to June 28

Note: Alternative covered payroll begins the first day of the first payroll cycle after the loan was disbursed. The loan covers payroll incurred during these 8 weeks, even if the last payroll is after the covered period.

If Borrower received PPP loans in excess of \$2 million check here:

The Application: Page Three

Forgiveness Amount Calculation:

To complete the forgiveness calculation you will need to first complete PPP Schedule A Worksheet and PPP Schedule A.

1. *Go to PPP Schedule A Worksheet Page 9 (instructions pages 7-8)*
2. *Go to PPP Schedule A on Page 6 (instructions on page 5)*

Schedule A Worksheet - Page 9

Table One

Add compensation for each person for each of the pay periods worked and add on chart:

Strategy One: Table is empty. There are no employees working.

Strategy Two: All employees listed. 12.5 employees. Total compensation \$68,374.38

Strategy Three: 9 employees listed. All of them full time. They have not all worked all 4 pay periods as they have been brought back gradually. This is reflected in the total compensation recorded.

Schedule A Worksheet - Page 9

Table Two

This need not be filled out as Happy Days Daycare does not have any employees making \$100,000 or more.

Schedule A Worksheet - Page 9

FTE Reduction Safe Harbor

Step One Borrower's average FTE between Feb 15, 2020 and April 26, 2020. (You calculate FTE for each payroll period of this time frame.)

Strategy One: 6.25

Step one: Total average FTE between Feb 15 and April 26

2/16-2/21 12.5

2/24-3/6 12.5

3/8-3/20 12.5

3/23-4/3 0

4/6-4/20 0

4/20-4/26 0

Total Average FTE: 6.25

Schedule A Worksheet - Page 9

Strategy Two: 12.5 (This has remained constant for the entire time period)

Strategy Three: 8.4

2/16-2/21 12.5

2/24-3/6 12.5

3/8-3/20 12.5

3/23-4/3 4

4/6-4/20 4

4/20-4/26 5

Total Average FTE: 8.4

Schedule A Worksheet - Page 9

Step two: FTE in pay period inclusive of February 15, 2020
12.5 for all three strategies

Step three:

If the entry for step 2 is greater than step one proceed to step 4.

Otherwise the FTE Safe Harbor is not applicable and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11. **We will need to complete line 13 of PPP Schedule A.**

Schedule A Worksheet - Page 9

Step four: Borrower's total FTE as of June 30, 2020

Strategy One: 0

Strategy Two: 12.5

Strategy Three: 9

Step five: if the entry for step 4 is greater or equal to step 2, enter 1 on line 13 of PPP schedule A; the FTE Reduction safe Harbor has been satisfied. Otherwise, the FTE Reduction Safe Harbor does not apply and the Borrower must complete line 13 of PPP Schedule A by dividing line 12 by line 11 of that schedule.

Schedule A - Page 6

We can now complete schedule A on Page 6. First review the instructions on page 5.

PPP Schedule A Worksheet-Table 1 Totals

Line 1: Cash compensation from PPP Schedule A Worksheet Table One

Strategy One: 0

Strategy Two: \$68,374.38

Strategy Three: \$33,326.68

Schedule A - Page 6

Line 2: FTE total

Strategy One: 0

Strategy Two: 12.5

Strategy Three: 9

Line 3: Wage Reduction \$0 (all employees back are full time. If anyone's salary was reduced by more than 25%, there would be additional reduction here.)

Schedule A - Page 6

PPP Schedule A Worksheet, Table 2 Totals

There are no employees at Happy Days making \$100,000 or more

Line 4: 0

Line 5: 0

Non-Cash Compensation Payroll Costs

Line 6: contributions for employee health insurance: \$2,887.86 (in all three strategies; health insurance for Director and Assistant Director has been paid)

Line 7: contributions to retirement plans: 0 in all three strategies

Line 8: state and local taxes \$3,914.62 (calculated quarterly; confer with your payroll preparation company or accountant)

Schedule A - Page 6

Compensation to Owners

Line 9: Total paid to owners

Total: \$11, 614.98

(\$7500 Health - 4114.98)

(Maximum forgivable amount for owners is: \$15,385)

Schedule A - Page 6

Total Payroll Costs

Line 10: (add lines 1, 4, 6, 7, 8, 9)

Strategy One: \$18,417.46

Strategy Two: \$86,791.84

Strategy Three: \$51,744.14

Schedule A - Page 6

Line 11 Average FTE during chosen reference period (2019 or Jan and Feb, 2020) 12.5

Line 12 Total average FTE (add lines 2 and 5)

Strategy One: 0

Strategy Two: 12.5

Strategy Three: 9

Line 13 divide line 12 by 11 or enter 1 if FTE safe harbor is met

Strategy 1: 0

Strategy 2: 1

Strategy 3: .72

Forgiveness Amount Calculation - Page Three

Now Return to the Forgiveness Amount Calculation - page 3:

Payroll and Nonpayroll Costs

Line 1 (PPP Schedule A Line 10) Note: amounts could be more with bonuses and raises.

Strategy One: \$18,417.46

Strategy Two: \$86,791.84

Strategy Three: \$51,744.14

Line 2 Business Mortgage Interest Payments \$0

Line 3 Business Rent or Lease Payments \$21,000

Line 4: Utilities \$367 (actual cost hire but total allowable for nonpayroll is 25%, which is \$21,367. You need only include here amounts for which you are requesting to have forgiven)

Forgiveness Amount Calculation - Page Three

Adjustments for Full Time Equivalency(FTE)& Salary/Hourly Wage Reduction

Line 5: salary hourly wage reduction 0

Line 6: (add lines 1, 2, 3, 4 and subtract line 5)

Strategy One: \$39,784.46

Strategy Two: \$108,151.84

Strategy Three: \$73,111.14

Line 7: FTE Reduction Quotient (schedule A, line 13)

Strategy 1: 0

Strategy 2: 1

Strategy 3: .72

We will be multiplying line 6 by line 7;

Forgiveness is % of Approved Expenses Based on Any Reduction in Staff

Forgiveness Amount Calculation - Page Three

Potential Forgiveness Amount: Lowest of Lines 8, 9, 10

Line 8: Modified total (multiply line 6 by line 7)

Strategy One: \$0 ($\$39,784.46 \times 0$) **Strategy 1 Receives No Forgiveness**

Strategy Two: \$108,151.84

Strategy Three: \$52,640.02 ($\$73,111.14 \times .72$) **Strategy 3 Receives .72% of**

Approved Expenditures

Line 9: PPP Loan Amount \$85,467.98 **Strategy 2 Receives Full Forgiveness**

Line 10: Payroll Costs 75% Requirement (divide line 1 - total payroll costs by .75)

Strategy One: \$24,556.61

Strategy Two: \$115,722.45

Strategy Three: \$68,992.19

Forgiveness Amount Calculation - Page Three

Forgiveness Amount

Line 11: (smallest of lines 8, 9, and 10)

Strategy One: \$0 (but keeps \$10,000 from EIDL Advance as a Grant)

Strategy Two: \$85,467.98 (\$75,467.98 as deduct EIDL Advance)

Strategy Three: \$52,640.02 (\$42,640.02 as deduct EIDL Advance)

Note: Decision of Congress on PPP loan flexibility will likely alter the outcome for strategies one and three.

Certification & Documentation

Certification - Page Four

Documentation: Payroll, FTE, Nonpayroll

Payroll Documentation - Page Ten

1. Bank account statements and/or third party payroll service provider reports documenting cash paid to employees
2. Tax forms or equivalent third party payroll service provider reports for the periods that overlap with the covered period or the alternative covered period. These include: payroll tax reported to IRS - typically Form 941 and State quarterly business and individual employee wage reporting and unemployment tax filings reported to the state
3. Payment receipts, cancelled checks, or account statements documenting amount paid for employee health insurance and retirement plans

Documentation

FTE Documentation

Documentation showing ONE of:

1. The average number of FTE employees per month between Feb 15, 2019 and June 30, 2019
2. The average number of FTE employees on payroll per month between Jan 1, 2020 and Feb 29, 2020
3. For seasonal employers either option 1 above, option 2 above, or any consecutive 12 week period between May 1, 2019 and Sep 15, 2019

Nonpayroll Documentation

1. Business mortgage interest payments documentation
2. Lease and rent payment documentation
3. Utilities documentation

Documentation & Demographics

Documents Each Borrower Must Maintain but is not Required to Submit

1. PPP Schedule A worksheet
2. Documentation supporting listing of each individual employee in Schedule A worksheet tables one and two
3. Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reduction in work schedule
4. Documentation supporting Schedule A Worksheet - FTE Reduction Safe Harbor

Page 11 - Demographic Information Form (Optional)