

Paycheck Protection Program

Addressing and Preparing for Loan Forgiveness

REDPATH
AND COMPANY

Redpath and Company Headquarters | 55 5th Street East | Suite 1400 | Saint Paul, MN 55101 | www.redpathcpas.com | 651-426-7000

Current State of the PPP

- March 27 – round one funding: \$349 billion in loans.
- April 27 – round two opens: \$310 billion in loans.
- Continued guidance is still coming.
- Rules around loan application appear to be relatively set.
- Rules around forgiveness are changing.
- Stay in constant communication with bank until you have your E-Tran number.

Questions We'll Be Addressing

1. Do expenses have to be paid and incurred during the 8 week covered period?
2. What is the 75% / 25% test?
3. I've laid off/furloughed my employees. Can my loan be forgiven?
4. Is the amount of debt forgiven taxable to the PPP loan recipient?
5. Why is the list of expenses eligible for use larger than the list of expenses eligible for forgiveness?
6. Does the rent portion for loan forgiveness include all rents and not just facility rents?
7. How does the 25% wage reduction test work?
8. How does the FTE test impact loan forgiveness?
9. In what order do we calculate forgiveness?
10. Do businesses owned by large companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

1) Do expenses have to be incurred and paid in the 8 week period?

What We Know:

- The CARES act stipulates that "...costs incurred and payments made during the covered period" related to loan forgiveness.

What We Don't Know:

- Whether the "and" means both are required or if it is either/or.

2) What is the 75% / 25% test?

What We Know:

- For purposes of loan forgiveness, a maximum of 25% of expenses can come from non-payroll cost items.

What We Don't Know:

- If it is required that 75% of loan proceeds are required to be spent on “payroll costs” regardless of forgiveness.
- If payroll is not significant enough during the 8 week forgiveness period to cover 75% of loan proceeds.
- What happens if the 75% threshold is not met.

3) I've laid off/furloughed my employees. Can my loan be forgiven?

What We Know:

- Payroll is the driver for loan forgiveness. If there is no payroll during the 8 week covered period, then there is no loan forgiveness.

What We Don't Know:

- Does the loan need to be paid back (and not converted into a 2 year loan) if not used for eligible expenses by the 6/30/20 date?

- 4a) Is the amount of debt forgiven taxable to the PPP loan recipient?
4b) Are expenses that loan forgiveness is related to deductible?

What We Know:

- The CARES Act specifically states that the debt forgiveness is not taxable.

What We Don't Know:

- It appears at this time that the expenses will be deductible. Also, it would seem odd to clearly state that the forgiveness is not taxable but then make the expenses non-deductible.

5) Why is the list of expenses eligible for use larger than the list of expenses eligible for forgiveness?

What We Know:

- There are more expenses eligible for use than for forgiveness.

Examples: Additional interest; additional rents

What We Don't Know:

- What happens if funds aren't used for eligible or forgivable expenses by the 6/30/20 date?

6) Does the rent portion for loan forgiveness include all rents and not just facility rents?

What We Know:

- Guidance issued on 4/14/20 defined rent as "business rents," therefore it is not limited to just facility rents.

What We Don't Know:

- We've seen many questions regarding related party leases. The CARES Act does not have reference to related parties, so the assumption at this time is that related party leases would be eligible expenses.

7) How does the 25% wage reduction test work?

What We Know:

- The CARES Act provides for a reduction in loan forgiveness if salary or wages are reduced greater than 25% during the 8 week period as compared to the most recent full quarter.
- This only applies to employees making less than \$100k annualized.
- There is a corrective action that can be taken on this by restoring salary and wage levels to 2/15/20 levels by 6/30/20.

What We Don't Know:

- What does most recent full quarter mean? 3 months? 12 weeks? 13 weeks?
- The comparison periods don't match up - comparing an 8 week period to a quarter.
- Does the corrective action require the back pay, or is it on a go forward basis only?

7) How does the 25% wage reduction test work?

List all employees who had annualized compensation for 2019 < \$100k employed during 8 week post-loan period	Annualized compensation rate for Q1 2020	Actual annualized compensation rate paid during 8 week post-loan period	Percentage Decrease	> 25% Reduction	Actual wages received during 8 week post-loan period	Amount not forgivable	Restored wages to rate payable on Feb 15, 2020 by June 30, 2020
Employee A	\$ 75,000.00	\$ 65,000.00	13.33%	No			
Employee B	\$ 85,000.00	\$ 60,000.00	29.41%	Yes	\$ 9,230.77	\$ 576.92	
Employee C	\$ 50,000.00	\$ -	100.00%	Yes	\$ -	\$ 5,769.23	
Employee D	\$ 50,000.00	\$ 40,000.00	20.00%	No			
Employee E	\$ 65,000.00	\$ 55,000.00	15.38%	No			
Total Not Forgivable						\$ 6,346.15	
For purposes of this spreadsheet, the annualized rate is assumed to be consistent through the 8 week post-loan period. It is also assumed that both the quarterly wages and applicable wages are annualized.							
Count of Employees With Reduced Wages		2					
Count of Employees With Restored Wages		0					

8) How does the FTE test impact loan forgiveness?

What We Know:

- If FTEs are less in the covered period (8 week forgiveness period) as compared to one of the two base periods, loan forgiveness will be reduced.

Base Periods:

- February 15, 2019 to June 30, 2019
- January 1, 2020 to February 29, 2020

What We Don't Know:

- How FTEs are calculated.
- Speculation is that 30 hours per week will be deemed FT.

	Data Input	Calculations	Amount Forgiven
Amount of PPP Loan	\$ 500,000.00		\$ 500,000.00
Amount of PPP Loan Used for Payroll During 8 Week Post-Loan Period	\$ 400,000.00		
Amount of PPP Loan Used for Other Authorized Purposes During 8 Week Post-Loan Period	\$ 60,000.00		
Note: Amount Used for Other Authorized Purposes >25% (not forgivable)			\$ -
Amount of PPP Loan Not Used or Used for Unauthorized Purposes (not forgivable)			\$ (40,000.00)
Subtotal of Amount Potentially Forgiven			\$ 460,000.00
Reduction in Headcount			
Numerator: Avg. FTE per month for 8 week post-loan period	9	9	
Denominator - Option 1: the average number of FT equivalent employees per month employed by the company during the period from February 15, 2019 through June 30, 2019	10	10	
employed by the company during the period from January 1, 2020 through February 29, 2020	12		
Percentage Not Forgivable (unless restored)		10.00%	
Amount Not Forgivable (unless restored)		\$ (46,000.00)	\$ (46,000.00)
Reduction in Wages			
Amount Not Forgivable (from Reductions in Wages)		\$ (6,346.15)	\$ (6,346.15)
Restoration of Headcount or Wages			
FTE Headcount as of February 15, 2020	12		
FTE Headcount as of April 26, 2020	10		
Job Losses During Period	2		
Jobs Restored by June 30, 2020	1		
Employees With Reduced Wages	2		
Employees With Restored Wages	0		
Amount of Loan Forgiven			\$ 407,653.85
Percentage of Loan Forgiven			81.53%

9) In what order do we calculate forgiveness?

What We Know:

- There are different ways that loan forgiveness could be reduced (not enough payroll, FTE reduction, wage reduction).

What We Don't Know:

- In what order are these applied? Depending on circumstance the ordering could change the result.

10) Do businesses owned by large companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

What We Know:

- All borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application.
- All borrowers should review carefully the required certification that “...current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”
- Must certify in good faith that their PPP loan request is necessary.

Repayment Issues – Current Guidance

“...current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant...”

"I just want to clarify, because certain people on the PPP may have not been clear in understanding the certification. If you pay back the loan right away, you won't have liability to the SBA and to Treasury. But there are severe consequences for people who don't attest properly to a certification."

—Steven Mnuchin, U.S. Treasury Secretary, referring to small businesses that may ask for loan forgiveness

Questions?



Paul Longsdorf, CPA | plongsdorf@redpathcpas.com

TAX PARTNER

Paul Longsdorf is a tax partner, client manager, and member of the construction industry team at Redpath and Company. He works with privately-held businesses providing corporate, partnership, and individual tax planning strategies and specializes in entity structuring and business consulting. Paul is a member of the Construction Financial Management Association (CFMA) and served as president from 2015 to 2017. He currently serves on the CFMA Twin Cities board of directors (since 2010) and served on the board of directors of the Minnesota Subcontractors Association from 2004 to 2010. Paul is a member of the Associated General Contractors of Minnesota, the Associated Builders and Contractors of Minnesota/North Dakota, and the Minnesota Surety Association. He has provided public accounting services since 1989 and has been at Redpath and Company since 1992.



Brian Sweeney, CPA | bsweeney@redpathcpas.com

AUDIT PARTNER

Brian Sweeney is an audit partner, client manager, and leads the manufacturing industry team at Redpath and Company. He works with privately-held businesses and specializes in providing mergers and acquisitions services, business and systems consulting, and management advisory services. Brian also has extensive experience working with employee-owned companies, or ESOPs, and is a regular presenter on topics of employee ownership at the local, regional, and national levels. He serves on the board of directors for the National Center for Employee Ownership (NCEO) and is a finance committee member of the ESOP Association. Brian also serves on the government relations committee of the ESOP Association Minnesota/Dakotas Chapter. He has provided public accounting services at Redpath and Company since 1998.