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Paycheck Protection Program Loans: A Matter of Forgiveness- Part II

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AGENDA

Part I

Paycheck Protection Program –
An Overview

Part II

The Forgiveness Application

Part III

Details of Each Section and
Explanations

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Q&A

Part I – Paycheck Protection Program – An Overview

The Main Event- PPP Loan Forgiveness

Forgiveness Application is Issued

- The previous guidance issued on PPP loans left many questions unanswered about forgiveness, but they also explicitly stated that the government would issue Guidance on Loan Forgiveness.
- On Friday Evening, May 15th, the government issued a “Loan Forgiveness Application” and related instructions.

Forgiveness Application is Issued

The Forgiveness Application

- While some questions will still remain about the loan forgiveness process, this webinar will attempt to address some of your questions from the previous webinar based on the new application.
- As always, we recommend reviewing your specific PPP Loan Forgiveness situation with CPA and Legal Counsel prior to submitting a package for loan forgiveness to the bank.
- Subsequently, Interim Final Rules were also issued.

Part II – The Forgiveness Application

The Forgiveness Application

The Forgiveness Application

- Was issued on May 15th, 2020;
- Is only two pages;
- Including instructions and schedules, it totals 11 pages;
- Answers many of the questions on how to calculate several amounts; and
- Can be used for planning

The Forgiveness Application

Guidance on Loan Forgiveness

- The substantive part of the actual Application is on Page 3.
- The second page of the actual application (Page 4) is a list of certifications.
- The remainder of the pages help instruct the borrower on how to fill out the application.

First Section- Borrower Information



**Paycheck Protection Program
Loan Forgiveness Application**

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		() -	
		Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____

Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

Weekly Biweekly (every other week) Twice a month Monthly Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here:

First Section- Borrower Information

Important Points

- This Section has general information about the borrower, but introduces some new concepts.
- Importantly, This section includes the idea of an “Alternate Payroll Covered Period”, which allows businesses to use a slightly different covered period for payroll. This will be discussed shortly.
- The application also asks if the loan (together with affiliates) exceeds \$2 million, which is likely the audit trigger.

Second Section- Payroll & Nonpayroll Costs

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):

Line 2. Business Mortgage Interest Payments:

Line 3. Business Rent or Lease Payments:

Line 4. Business Utility Payments:

Second Section- Payroll & Nonpayroll Costs

Important Points

- This section is where you enter the amount of allowable costs for which the loan proceeds were used.
- This section requires borrowers to first fill out the Schedule A (and accompanying tables) in order to arrive at the figure for Line 1 (Payroll Costs).
- The required calculations to arrive at the number for Line 1 is one of the most involved parts of the application.

Third Section- Adjustments

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3): _____

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5: _____

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13): _____

Third Section- Adjustments

Important Points

- In this section is where the forgivable amount is reduced by reductions in FTE employees and reductions in pay of greater than 25%.
- This section requires borrowers to first fill out the remainder of Schedule A (and accompanying tables) in order to arrive at the figure for Lines 5 & 7.
- The required calculations to arrive at these numbers is also one of the most involved parts of the application.
- The “safe harbor” is factored into this section.

Third Section- Adjustments

Important Points

- “Safe Harbors” refer to mechanisms to reduce or eliminate reductions in the forgivable amount due to changes in FTE employees and reductions in pay of greater than 25%.
- Generally, if a borrower restores compensation levels (i.e. Salary/Hourly Wage) and FTE Employee numbers by June 30, 2020 (back to the respective levels and numbers for the payroll period including February 15, 2020), the Borrower can be eligible for elimination of the corresponding reduction amount.

Fourth Section- Final Forgiveness Amount Calculation

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):

Line 9. PPP Loan Amount:

Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

Fourth Section- Forgiveness Amount

Important Points

- This section is where the final forgivable amount is calculated.
- Notably, the forgiveness amount is the least of three possible amounts:
 - Allowable Costs less adjustments; or
 - The total loan amount; or
 - The total payroll costs divided by 0.75.
- Line 11 is the final forgivable amount.

Part III –
Details of Each Section and
Explanations

Section by Section

Application Sections

- Each Section of the first page of the Forgiveness Application has related instructions and information.
- The calculations needed to be performed are detailed in schedules and other parts of the application documents.
- Many of these proposed calculations answer some of the questions previously raised about the way forgiveness would be handled.
- We will break down the major points section by section.

First Section- Borrower Information

Key Items

- This section is generally straightforward, as it asks for general borrower and loan information.
- However, the section also introduces a new concept: the “Alternative Payroll Covered Period”
- The section also asks about payroll frequency and if the loans to the borrower (together with affiliate borrowers) exceed \$2 million, both of which have other implications.

Alternative Payroll Covered Period

Alternative Payroll Covered Period Defined

- “For administrative convenience, Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date”.

First Section- Borrower Information

Other Items

- As noted above, the selection in “Payroll Schedule” can affect if they are eligible for an Alternative Payroll Covered Period.
- The checkbox asking if the borrower (together with affiliates) “received PPP loans in excess of \$2 million” is likely to be the trigger for an audit.
- No deadline for submission of the application has been given; however the application lists an “Expiration Date” of 10/31/2020.

Second Section- Payroll & Nonpayroll Costs

Calculation of Payroll and Nonpayroll Costs

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):

Line 2. Business Mortgage Interest Payments:

Line 3. Business Rent or Lease Payments:

Line 4. Business Utility Payments:

Payroll Costs

Additional Payrolls may be Allowed

- “Borrowers are generally eligible for forgiveness for the payroll costs paid and payroll costs incurred during the eight-week (56-day) Covered Period (or Alternative Payroll Covered Period).”

Payroll Costs

And Payroll Dates After the Covered Period are Included.

- “Payroll costs incurred but not paid during the Borrower’s last pay period of the Covered Period (or Alternative Payroll Covered Period) **are eligible for forgiveness if paid on or before the next regular payroll date.**”

Calculated using "Schedule A"

Payroll Costs



**Paycheck Protection Program
Loan Forgiveness Application**

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

- Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1: _____
- Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1: _____
- Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:
If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here and enter 0 on line 3. _____

PPP Schedule A Worksheet, Table 2 Totals

- Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2: _____
- Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2: _____

Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period

- Line 6. Total amount paid by Borrower for employer contributions for employee health insurance: _____
- Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans: _____
- Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation: _____

Compensation to Owner:

- Line 9. Total amount paid to owner-employees/self-employed individual/general partners:
This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each. _____

Total Payroll Costs

- Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9): _____

And the Worksheet Tables

Payroll Costs



**Paycheck Protection Program
Loan Forgiveness Application**

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

Attach additional tables if additional rows are needed.

Payroll Costs

Owners are treated differently.

- Owners of a business may be treated differently, including having additional caps on forgiveness, depending on their status.
- General Partners and Schedule C filers do not get additional forgiveness for health insurance contributions or retirement contributions.

Nonpayroll Costs

Some Flexibility

- Nonpayroll costs are also eligible if paid or incurred during the covered period.
- This leaves the possibility of forgiveness for costs from prior periods.
- No advance payment of mortgage interest.

Third Section- Adjustments

Reductions in Forgiveness Amount

- This Section also uses the same Worksheet and Tables.
- Notably, you first subtract Salary/Hourly wage reductions and then multiply by the FTE reduction.
- The safe harbors are built into these figures.

Adjustments

Reductions in Salary/Hourly Wage

- Salary/Hourly Wage reductions are calculated on a per employee basis, including the safe harbor.
- Salary/Hourly Wage reductions only apply to employees who received salary/hourly wages at annualized rate of less than or equal to \$100,000 **for all pay periods in 2019** (or were not employed at any point in 2019)
- The FTE safe harbor is only calculated in the aggregate (all or nothing).

Reductions in Wage Calculations

Adjustments

Step 1. Determine if pay was reduced more than 25%.

- a. Enter average annual salary or hourly wage during Covered Period or Alternative Payroll Covered Period: _____.
- b. Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020: _____.
- c. Divide the value entered in 1.a. by 1.b.: _____.
If 1.c. is 0.75 or more, enter zero in the column above box 3 for that employee; otherwise proceed to Step 2.

Step 2. Determine if the Salary/Hourly Wage Reduction Safe Harbor is met.

- a. Enter the annual salary or hourly wage as of February 15, 2020: _____.
- b. Enter the average annual salary or hourly wage between February 15, 2020 and April 26, 2020: _____.
If 2.b. is equal to or greater than 2.a., skip to Step 3. Otherwise, proceed to 2.c.
- c. Enter the average annual salary or hourly wage as of June 30, 2020: _____.
If 2.c. is equal to or greater than 2.a., the Salary/Hourly Wage Reduction Safe Harbor has been met – enter zero in the column above box 3 for that employee. Otherwise proceed to Step 3.

Step 3. Determine the Salary/Hourly Wage Reduction.

- a. Multiply the amount entered in 1.b. by 0.75: _____.
- b. Subtract the amount entered in 1.a. from 3.a.: _____.

If the employee is an hourly worker, compute the total dollar amount of the reduction that exceeds 25% as follows:

- c. Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020: _____.
- d. Multiply the amount entered in 3.b. by the amount entered in 3.c. _____ . Multiply this amount by 8: _____ . Enter this value in the column above box 3 for that employee.

If the employee is a salaried worker, compute the total dollar amount of the reduction that exceeds 25% as follows:

- e. Multiply the amount entered in 3.b. by 8: _____ . Divide this amount by 52: _____ .
Enter this value in the column above box 3 for that employee.

Adjustments

Full Time Equivalent (“FTE”)

- FTE Employees is the unit required by the CARES Act to compare employment levels between different periods.
- FTE is not a simple count of employees, and it instead uses the average weekly hours worked by each employee during the period.

A Note on FTE Calculation

Application Defined FTE

- FTE is based on dividing the weekly average of each employee by 40, with a maximum of 1.0.
- The FTE are then added together to get the FTE Employees for the period.
- There is guidance to protect employers whose employees leave voluntarily, are fired for cause or refuse to return to work.

Adjustments

Reductions in FTE

- A borrower can elect to use a simplified method: assign all 40+ hour employees 1.0 FTEs and anyone under 40 hours 0.5 FTEs.
- The FTE safe harbor is only calculated in the aggregate (all or nothing).

Fourth Section- Final Forgiveness Amount Calculation

Final Forgiveness Amount Calculation

- The last calculation section just requires basic math to find the lesser of three options to determine the final forgiveness amount.
- The three numbers are:
 - Loan Amount;
 - Total costs less adjustments; &
 - Payroll Costs ***divided*** by .75.

Fourth Section- Final Forgiveness Amount Calculation

Final Forgiveness Amount Calculation

- Notably, the calculation for Payroll Costs ***divided*** by .75 resolves the question about what happens if you cannot spend all of your loan amount.
- Nonpayroll cost forgiveness would just be reduced, not eliminated, in the case that a borrower uses less than 75% of the loan amount.

Second Page of Application

Second Page of Application

- The second page of the application contains only representations and certifications.
- They must be answered truthfully.
- No calculations are needed.

Second Page of Application

Second Page of Application

- As noted, while there is no express deadline to apply for forgiveness, the application lists and expiration date of October 31, 2020.
- The lender must make a decision on forgiveness within 60 days of an application.
- If the possibility of meeting a safe harbor requirement would increase the forgiveness amount, some companies may wait until after the safe harbor deadline (June 30, 2020) to file the Application.

Possible Amendments

CARES Act May Be Amended

- The House has passed a bill to amend several provisions of the Act.
- The Senate is now considering the House bill as well as compromise legislation.
- Stay tuned for more updates.

Part IV – Q&A



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**Thank you
&
Stay Safe!**

