



Tracking Expenses

- Paycheck Protection Program

April 29, 2020

Paycheck Protection Program

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- What you can use the monies for?
- How do you maximize forgiveness?

Disclaimer:

- Our team has worked diligently to stay abreast of a multitude of changes and updates, as recently as this past weekend.
- The PPP facility has been put together very quickly without a lot of precise guidance. Updates are issued almost daily.
- WE strive to bring you the most accurate information as general guidelines.
- Business owners should always check with their accountant.

What is the intention of the SBA's PPP?



- **Keep workers employed!**
- **Help small business sustain their business!**

“This legislation provides small business job retention loans to provide eight weeks of payroll and certain overhead to keep workers employed”. – Secretary Mnuchin

“These loans can be forgiven as long as the funds are used to keep employees on the payroll and for certain other expenses”. – Secretary Mnuchin

Allowable Uses:

75%	25%
Payroll Cost Group Health Benefits Salaries, Commissions, Bonus	Interest on mortgage interest paid for mortgage before Feb 15, 2020. Lease payment for rent in effect as of Feb 15, 2020. Utilities: Electricity Gas Water Transportation Internet access Telephone
8-week period beginning date of funding	

CAN NOT
Pay back wages Pre-pay expenses Use for expenses other than stated above Count wages that were covered under FFCRA



PAYROLL COSTS – Do's and DON'Ts

Payroll costs that are eligible for loan forgiveness:

- GROSS Salary, wages, commission or similar compensation (recent SBA guidance states that payroll costs include all cash compensation, including a housing stipend or allowance).
- Payments for vacation, parental, family, medical or sick leave.
- Allowance for dismissal or separation.
- Payments for the provision of group health care benefits, including insurance premiums.
- Payments for retirement benefits, including employer portion 401K.
- State or local payroll taxes.

PAYROLL COSTS – Do's and DON'Ts

Payroll costs that are NOT eligible for loan forgiveness:

- Payments to an independent contractor.
- Cash compensation in excess of \$100,000.
- The employer's share of federal payroll taxes.
- Qualified sick leave and qualified parental leave wages for which credit is allowed under the Families First Coronavirus Response Act (FFCRA).
- Workman's Compensation Insurance.

Forgiveness:

So, you've have received your PPP loan from your bank now what?

- The clock starts ticking the day following the disbursement of the funds.
- PPP forgiveness is contingent on your maintaining the employees you had at the salaries they had. A two-prong test.
- 75% of the monies you receive must go towards payroll costs.
- Documentation will be extremely important!

Two Prong Test

All About the employees.....

- Retention of Full Time Employee:
 - Full Time Equivalent (?)
 - Part Time(?)
 - **First Prong...** What percent of the loan will be forgiven?
 - To achieve 100% forgiveness you must be paying the same number of Full Time Employees during the “covered-period” (8 week following disbursement of funds) that you had either:
 - From February 15, 2019 through June 30, 2019
 - or-
 - From January 1, 2020 through February 29, 2020
 - If you have only retained or rehired a portion, then you will only be entitled to that percent of forgiveness:
 - Start rehiring / paying immediately!
- The calculation is based on the average number of FTE per pay period

• **Second Prong...**

- Important to retain the employee AND not reduce their compensation
 - Compare salary during 8-week period to salary during last FULL quarter they worked.
 - If more than 25% reduction, then the difference between the actual reduction and a 25% allowance will be reduce for the covered period wages.

Two Prong Example

ABC Co. is awarded a \$80,000 PPP Loan

- During February 15, 2019 and June 30, 2019, ABC Co. employed 10 FTE:
 - ABC company employed 10 FTE between February 15, 2019 and June 30, 2019.
 - COVID Strikes – ABC Co. furloughs 4 of 10 FTE.
 - ABC Co. applies for and receives a PPP loan.
 - ABC Co. rehires 2 FTE for a total of 8 following receipt of PPT funds.

TEST 1

$$\frac{8 \text{ FTE}}{10 \text{ FTE}} \text{ Covered period} = 80\% \\ \text{Base period}$$

RESULT: ABC Co. is entitled to a maximum forgiveness of 80% of expended funds.

Example: Two Prong Test

TEST 2

- During covered period ABC Co. reduces salary of 1 FTE by 35%, from \$60,000 annually to \$39,000. (“Affected FTE”)

Affected Employee	Before COVID	PPP Allowable	Actual Wage Reduction
Annualized Salary	\$60,000.00	\$45,000.00	\$39,000.00
Weekly Wages	\$1,154.00	\$865.00	\$750.00
Wages applied to forgiveness (8-week covered period)			\$6,000.00
Prong 2 reduction from forgiveness (difference between allowable and actual)			\$923.00

Example: Effect of Two Prong test

Eligible Forgives:

LOAN	\$80,000		
Spent on Payroll	\$60,000	75%	
Spent on Rent & Utilities	\$20,000	25%	
	\$80,000		

QUALIFIER	75% SPENT ON PAYROLL	√
Test 1	80% (8FTE vs. 10 FTE)	(\$16,000)
Test 2	Affected FTE Salary	(\$ 923)
FORGIVEABLE AMOUNT		\$63,077

Documentation is key

- **You will be required to provide documentation on how the money was spent, whether you request forgiveness or not.**
 - **Payroll Tax filings**
 - **State Income, Payroll and Unemployment Insurance filings**
 - **Cancelled checks**
 - **Potentially,**
 - **Copies of leases**
 - **Mortgages**
 - **Utility contracts**
- **Reconciliation of Uses of dollars**



Certifications

Under penalty of LAW – This is SERIOUS!

Knowingly making a false statement to obtain a guaranteed loan from SBA is punishable under the law, including under 18 USC 1001 and 3571 by imprisonment of not more than five years and/ or a fine up to \$250,000; under 15USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000 : and, if submitted to a federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.

- **Uncertainty of current conditions makes necessary the loan request.**
- **Funds will be used / were used to retain workers and maintain payroll or make mortgage payments, lease payments and utility payments.**
- **Affirm that tax documents provided are identical to those submitted to IRS.**
- **Applicant has not received and will not receive another loan under this program or for duplicative amounts.**
- **Documentation is True and Correct.**



Most recent guidance (April 23). Borrower must certify that business was **in NEED**

- Responsibility of the borrower to assess **NEED** at time of application based on PPP and CARES ACT standards
 - Business was “harmed” by COVID-19 pandemic.
 - Business did not have other sources of liquidity to fund.
 - Must certify in good faith that loan request is necessary.
- Amnesty based on April 23, 2020 guidance- Payback by May 7,2020



Possible requirement to evidence **NEED**

- Cash Flow Analysis.
- Pro-Forma income statements demonstrating projected revenue and profitability with and without COVID-19 impact.
- Quantify actual losses evidencing inability to pay salaries and other allowable expenses.

Thank you!

We sincerely hope that you have found today's webinar useful. As your community bank we are here to provide guidance. Expert opinions should be sought from your accountant or attorney.

WE ARE
Stronger
TOGETHER



Veronica B. Flores
Chief Operating Officer



Angel Medina
Executive Vice President



Patrick Khoury
Senior Vice President

