



Paycheck Protection Program Loans: Managing Your PPP Loan & Forgiveness 101

With Updates as of May 13, 2020
Continue to Check SBA's Website



This information is provided for general informational and educational purposes only and does not constitute legal advice. Please note guidance is changing regularly and we encourage you to check with the SBA and your lender for updated information.

Q&A Controls



NOTE: All attendees are muted. You can change your speaker or audio output by clicking on “Audio Settings ^”





Q&A

- Ask your questions using the Q&A
- Your name will be displayed along with your question – select “Ask Anonymously” to remove your name prior to submitting your question.
- An FMA Team Member may type a response or answer it live.
- Click the Q&A icon to see all asked questions.
- Feel free to submit **comments**. These are visible to all panelists and attendees.


What are we covering today?

- Question of Returning PPP Loan Funds
- Allowable Uses of the Loan & PPP Loan Accounting 101
- Forgiveness 101
- Resources Available

FMA Paycheck Protection Program Toolbox



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<https://fmaonline.net/ppptoolbox/>



Basics of the PPP

- Federal loan administered by the SBA
- It is a **loan with conditions** on how it can be used
- There is an opportunity for it to be fully **forgiven**
- Whatever is used for allowable costs and not forgiven, continues as a loan at 1% interest

Caution Ahead: Guidance is Still Evolving & You Will See Where We Have Open Questions in Red Boxes

Good Faith Certification & Returning PPP Loans

“The current economic uncertainty makes this loan necessary to support our ongoing operations.”

Borrowers must make certification in [good faith](#), taking into account [current business activity](#), ability to access [other sources of liquidity](#) sufficient to support ongoing operations in a manner that is [not significantly detrimental](#)

As of May 13th:

- Those with loans **below \$2M** are automatically determined to have made this in good faith. No further action needed.
- Audits for loans \geq **\$2 million**. SBA may determine you need to return the funds if you cannot prove necessity.
 - Focus has been on businesses with **access to capital markets**
 - Document your need & analysis

What Can We Use the Loan For?

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- **Payroll** (total loan must be at least 75% for payroll)
- **Utilities, rent, mortgage interest**, interest payments on other debt obligations (with arrangements in place by 2/15/20)

There are consequences of spending on unallowable expenses, including needing to return funds used for these unallowable purposes. If done knowingly, this could be considered fraud with certain penalties.

What Can We Use the Loan For?

Allowable

Gross Salaries, Wages, Paid Leave, Severance

Employer Paid Health* & Retirement Benefits

Employer Paid State & Local Payroll Taxes

Rent & Mortgage Interest, Other Interest

Utilities (Water, Gas, Electricity, Transp. Internet, Phone)

Unallowable: All Other Expenses Including

Excess Wages for Salaries > \$100k**

Payroll for Employees Perm. Outside USA

Employer Portion of Federal Taxes & FICA

FFCRA Credits for Sick and Family Leave

Independent Contractor Pay (1099s)

*Group health benefits includes medical, dental, and vision.

** Limited to \$1,923 weekly gross wages eligible for PPP

Additional Expense Considerations

Question about the timing of allowable expenses -

For example, if the 8-week period starting with the day of loan disbursement is 4/15 - 6/14, and April rent was paid on 3/31, would we consider 2 weeks of that rent an eligible PPP expense? (Similar question related to accrued payroll paid after the 8 week period ends.)

We will clarify this as we get more guidance.

For now, consider accrual basis expenses associated with the 8-week period as eligible, rather than simply what's paid during the 8-week period, but keep in mind this may evolve and you may want to consult with your lender.

Additional Expense Considerations

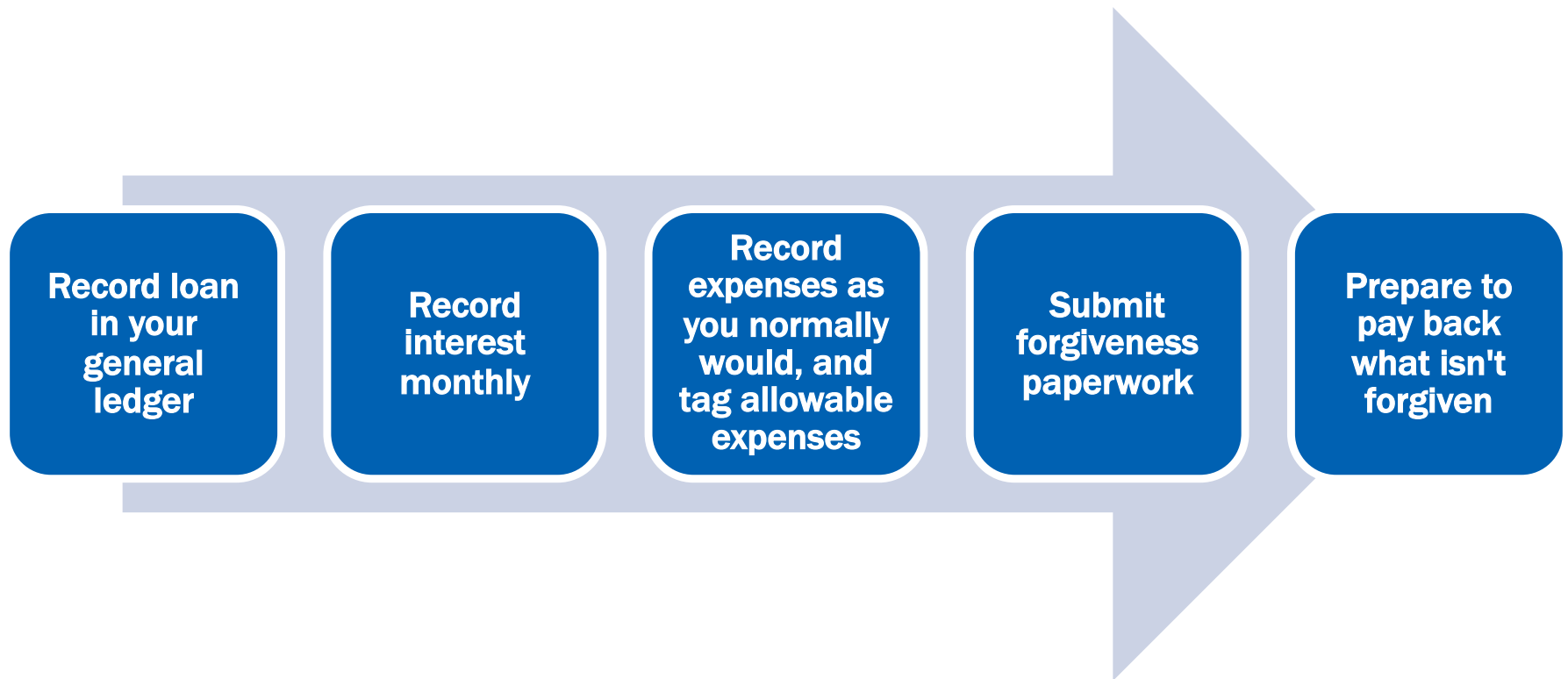
Question about expenses allowable under federal grants and interaction with PPP loan –

- Organizations receiving other federal funds cannot "double dip," meaning you cannot claim to the federal government you spent different federal funds on the same expenses.
- You should consider comparing your allowable expenses for PPP vs. your federal grants and contracts.
- There may be other allowable expenses your other federal funding can cover, including during the 8-week period.

Q&A

PPP Loan Accounting 101: Recording & Tracking Funds

Overview: How to Manage the Loan



Accounting When We Receive The Loan

- ☐ Re-read through promissory note and save with other key financial documents
- ☐ If not already in place, create new accounts in your chart of accounts for **PPP Loan Payable** (Liability Account), **Forgiveness of Debt** (Revenue Account), and **Interest Expense** (Expense Account)
- ☐ Create a way to track the allowable expenses associated with the loan like you would other funding sources (e.g., Customer/Job function)
- ☐ Record the Cash when received and offset with Total Loan Amount as Liability on your Balance Sheet
- ☐ Begin planning for any personal adjustments to bring people back on payroll. See Forgiveness 101 section.

See Appendix for
Step-by-Step
Journal Entry
Guidance

Accounting During the Loan Period

- ❑ As related invoices and payments are processed through accounts payable, book as you normally would.

But also determine portion to be tracked as allowable and later considered in the forgiveness process. Code accordingly.

- ❑ Accrue interest as **Interest Expense** at 1% APR against the total loan amount until full forgiveness confirmed or all funds paid back.

Open Question: Timing of Allowable Expenses Eligible for Forgiveness. See Forgiveness section.

Accounting When the Loan is Forgiven

After your lender confirms your amount for forgiveness:

- ☐ Reduce **PPP Loan Payable** account by the amount (principal + interest) forgiven
- ☐ Increase **Forgiveness of Debt** account by the amount forgiven

PPP Forgiveness 101

Overview: How Much Will We Get Forgiven?

How much will be forgiven? What we understand so far...

Up to 100% of the funds you spend in the first 8 weeks following loan disbursement if you keep or increase your FTEs, maintain salaries of employees and spend the loan on what it is supposed to be spent for (payroll, rent, mortgage interest, utilities)

BUT - if you have to decrease salaries of employees making less than \$100,000 by more than 25% or reduce FTEs, you will get a partial reduction in forgiveness.

- Reductions made between 2/15/20 – 4/26/20 will be disregarded/not reduce forgiveness if replenished by 6/30/20

What Can I Do Today To Begin Estimating?

1. Estimate **how much you will spend** on allowable payroll and operations expenses during the **8-week period**
2. Estimate any **Workforce or Wage Reduction** penalties
3. Ensure you spend **at least 75%** on allowable payroll expenses
4. Understand if you may need to shift arrangements with any of your **restricted funding sources**

Please also review your promissory note and check with your lender if they have any suggestions on estimating forgiveness.

Formula: How Much Will We Get Forgiven?

Amount of
Loan Spent
on Allowable
Expenses*
During 8
Weeks
Following
Disbursement

X

Average # of FTEs Per Month
During 8 Week Period

Option 1: Average # of
FTEs Per Pay Period
Feb 15 – Jun 30, 2019

Or^

Option 2: Average # of
FTEs Per Pay Period
Jan 1 – Feb 29, 2020

Wages
for Salaries
Reduced By
More than
25% for
Those
Making
< \$100k

=

Amount
Forgiven

(Up to
the Full
Loan
Amount)

*Grace for bringing back FTEs or reinstalling salaries reduced between 2/15 – 4/26
if Done by 6/30 (see Appendix II)*

**Cap of \$15,385 in salaries per employee given the \$100k annualized salary cap*

^ Seasonal Employers see Appendix II for FTE measurement period

Forgiveness Scenario Examples

SBA guidance allows you, the borrower, to pick one of two options to compare to your PPP 8-week period to understand how much you'll be able to get forgiven. So assuming you do not reduce staff salaries...

	Scenario 1	Scenario 2
Between 2/15-6/30/19 (Option 1) you had...	Monthly Average: 10 FTEs	Monthly Average: 10 FTEs
You grew in January and February of 2020 (Option 2), so you had...	Monthly Average: 15 FTEs	Monthly Average: 15 FTEs
The crisis resulted in layoffs, so when you received your loan you had...	5 FTEs	5 FTEs
With PPP funds you can rehire during the 8-week period...	You rehire 5 FTEs for a monthly average of 10 FTEs for the 8-week period	You rehire 3 FTEs for a monthly average of 8 FTEs for the 8-week period
Forgiveness Result	Fully Forgiven	Partially Forgiven

In both scenarios, you would compare to Option 1 – the lower FTEs option.

Forgiveness Estimator – FMA

Step 1 - Enter Loan Details		Notes
Loan Amount		
Loan Origination Date		Loan origination date is the first day the loan funds are dispersed into your account
Loan End Date		Loan end date is 56 days after origination date

Step 2 - Calculate Average FTEs	
Average FTEs for each date range	
2/15/2019 - 2/28/2019	
3/1/2019 - 3/31/2019	
4/1/2019 - 4/30/2019	
5/1/2019 - 5/31/2019	
6/1/2019 - 6/30/2019	

Step 4 - Est. Forgiveness Amount			
Select an Average number FTEs During Loan to model			
	First Four Weeks Total	Last Four Weeks Total	Overall Loan Total
+Gross Salary, Wages, Tips, Commissions			\$ -
+ Paid Vacation, Parental, Family, Medical or Sick Leave			\$ -
+ Group Health Benefits			\$ -
+ Retirement Benefits			\$ -
+ Employer Paid State Tax			\$ -
+ Employer Paid Local Tax			\$ -
-Compensation in excess of \$100K annualized salary cap			\$ -
Total Allowable Payroll Costs	\$ -	\$ -	\$ -





What Will the Forgiveness Process Look Like?

Guidance still coming but probably will include:


- Gathering payroll information, relevant IRS Forms 941's, and documentation backing up every expense you are looking to get forgiven
- Filing a forgiveness application with certain certifications
- Lender will have 60 days to return result
- Loans above \$2M will be subject to an audit from the SBA.
More details to come.

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