

An Overview of the PPP Loan Forgiveness Application



Keiter
Advisors

Your Mergers & Acquisitions Specialists

*Prepared as of
May 19, 2020*



Obtaining Liquidity in Uncertain Times





Agenda

- Introductions
- Key Terms
- Forms
- Payroll Costs
- Non-Payroll Costs
- Forgiveness Reduction Calculations
- Safeharbor provisions
- Document
- Questions



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Advised on over 30 transactions per year across an array of industries.



KEY TERMS

All information contained within this presentation is subject to change. Please contact your Keiter team member with additional questions or to seek clarification on anything discussed herein

- **Covered Period** – 8 week/56 day period of a borrowers PPP Loan beginning on the Loan Disbursement Date
- **Alternative Payroll Covered Period** – For those with every 2 weeks or weekly payroll, can use to calculate eligible payroll costs using the 8 week/56 day period that begins on the 1st day of their 1st pay period following their Loan Disbursement Date



LOAN FORGIVENESS FORMS

- Loan Forgiveness Application is comprised of:
 - PPP Loan Forgiveness Calculation Form inclusive of PPP Loan Forgiveness Borrower Representations and Certifications (must be submitted)
 - PPP Schedule A (must be submitted)
 - PPP Schedule A Worksheet (must be maintained but not required to be submitted)



LOAN FORGIVENESS FORMS

PPP Loan Forgiveness Application & Calculation Form

Representations and Certifications



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:

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: _____

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): _____

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): _____



Paycheck Protection Program Loan Forgiveness Application

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

By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The authorized representative of the Borrower certifies to all of the below by initialing next to each one.

- _____ The dollar amount for which forgiveness is requested:
 - was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes all applicable reductions due to decreases in the number of full-time equivalent employees and salary/hourly wage reductions;
 - does not include nonpayroll costs in excess of 25% of the amount requested; and
 - does not exceed eight weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
 - _____ I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
 - _____ The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.
 - _____ I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
 - _____ The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 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.
 - _____ The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
 - _____ I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.
- The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

Signature of Authorized Representative of Borrower _____

Date _____

Print Name _____

Title _____



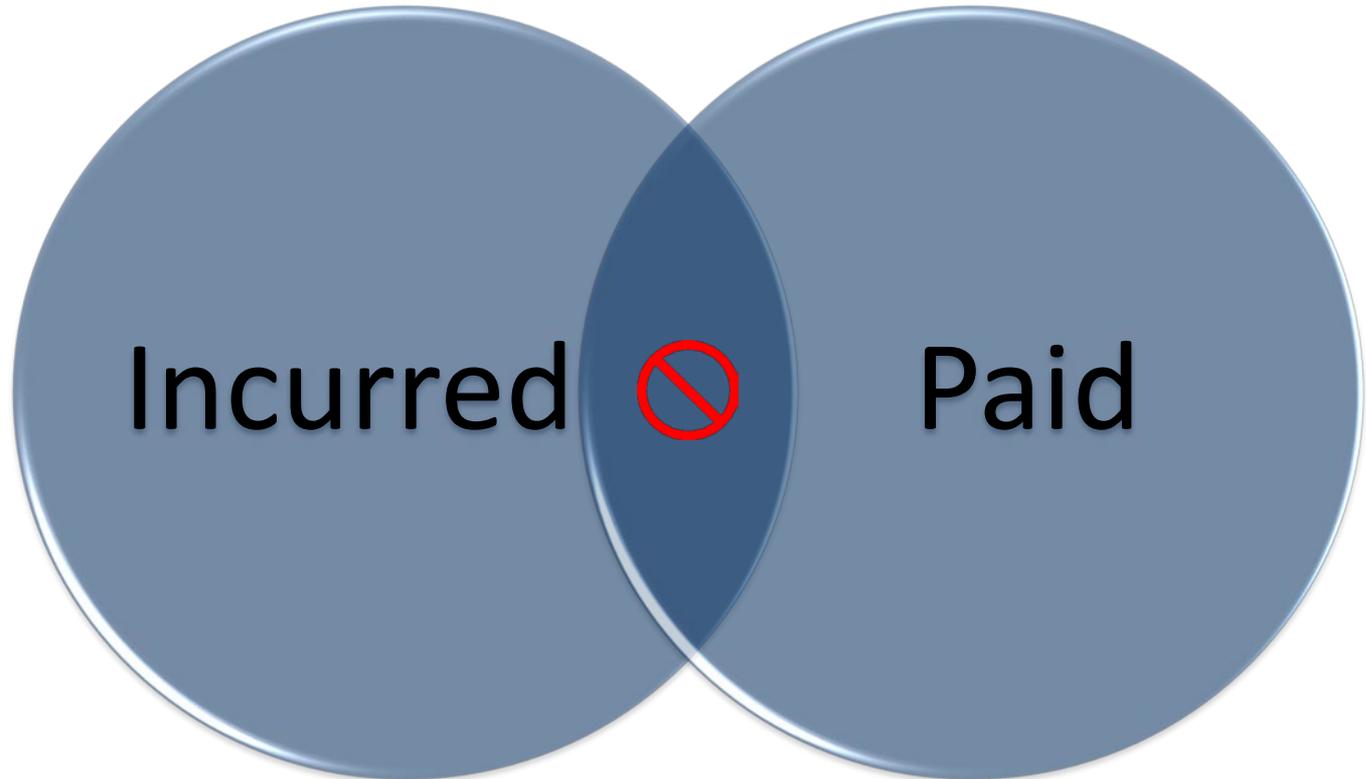
PAYROLL COSTS

➤ Eligible Payroll Costs

- Payroll costs paid and payroll costs incurred during 8 week Covered or Alternative Covered Period (count payroll costs that were both paid and incurred only once).
 - Incurred = day that employee's pay is earned
 - Paid = Day that paychecks are distributed or day that Borrower originates ACH credit transaction
- Payroll costs incurred but not paid during the Borrowers 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
- For each individual employee, total amount of cash compensation eligible for forgiveness can not exceed an annual salary of \$100,000, prorated for the covered period



PAYROLL COSTS



 Only count once in determining Payroll Costs



PAYROLL COSTS

- Only payroll costs are subject to Covered vs. Alternative Payroll Covered Period
- Remember to include amounts paid for:
 - Health Insurance (employer portion)
 - Retirement plan contributions (employer portion)
 - State/local taxes assessed on employee compensation
- Owner-employees, self employed individuals or general partners
 - Amount is capped at the LESSER of \$15,385 for each individual OR the 8 week equivalent of their 2019 compensation.
 - Unsure at this time if attribution rules apply



NON-PAYROLL COSTS

➤ Eligible Non-Payroll Costs

- Covered mortgage obligations – Interest payments (no prepayments or principal payments) on real or personal property as long as the debt was in place prior to 2/15/20
- Covered rent obligations – Business rent/lease payments pursuant to real or personal property in force before 2/15/20
- Covered utility payments
- Eligible Non-Payroll Costs Must be:
 - Paid during Covered Period or
 - Incurred during Covered Period AND paid on or before the next regular billing date, even if the billing date is after the Covered Period.



TOTAL ELIGIBLE COSTS

- Loan forgiveness is subject to several tests
 - Salary / hourly wage reduction test (1st)
 - FTEE reduction test (2nd)

- New safeharbor guidance provided



SALARY / HOURLY WAGE REDUCTION

- Only employees that meet all of the following criteria are considered in this analysis:
 - Principal place of residence in the United States
 - Employed at any point during the Covered Period or the Alternative Payroll Covered Period
 - Received compensation from the borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 OR was not employed by the Borrower at any point in 2019.
- **Does not include owner-employees, partners, self-employed individuals, or independent contractors.



SALARY / HOURLY WAGE REDUCTION

- Comparison period for Salary Wage Forgiveness is 1/1/20 – 3/31/20.
- Uses concept of average annual salary and average hourly wage for both measurement periods (1/1/20 – 3/31/20 and the Covered/Alternative Payroll Covered Period)
- Threshold measure is a decrease that **exceeds** 25%
 - Salary: Annual Average Salary is less in 1/1/20-3/31/20 measurement period.
 - Hourly: Takes the amount that the hourly wage is lower (assuming by 25% or greater), multiplies by the average number of hours worked PER WEEK in 1/1/20-3/31/20 and then multiplies this by 8 weeks
- Safe Harbor: Restore average salary/wage by June 30th to the level it was as of 2/15/20
- The resulting reduction to forgiveness is a dollar for dollar reduction from the amount spent on allowable uses



SALARY / HOURLY WAGE REDUCTION QUICK EXAMPLE

- Employee Y was paid less than \$100k in any pay period during 2019. Y was paid \$5,000 for the Covered Period (Avg. Annual Salary of \$32,500) and \$12,000 during 1/1/20-3/31/20 (Avg. Annual Salary of \$48,000)
- The two numbers to compare are \$32,500 and \$48,000 which is a decrease of \$15,500 or 32%, which is greater than 25%.
- To determine the impact, before taking into account the safe harbor, we take:
 - $\$48,000 * 75\% = \$36,000.$
 - $\$36,000 - \$32,500 = \$3,500$
 - $\$3,500 / 52 = \67.31
 - $\$67.31 * 8 = \538.46
- This calculation needs to be done for each eligible salary / wage earner.



SALARY / HOURLY WAGE REDUCTION

- The SBA has put in a formula you can use for each employee as you fill out Table 1 (pages 7-8)

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

- Enter average annual salary or hourly wage during Covered Period or Alternative Payroll Covered Period:

- Enter average annual salary or hourly wage between January 1, 2020 and March 31, 2020: _____
- 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.

- Enter the annual salary or hourly wage as of February 15, 2020: _____
- 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.
- 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.

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

A Form 3508 (05/20)

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**Paycheck Protection Program
Loan Forgiveness Application**

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

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

- Enter the average number of hours worked per week between January 1, 2020 and March 31, 2020:

- 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:

- 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.



FTE REDUCTION QUOTIENT

- Once a borrower has determined amount of allowable uses and the reduction in allowable uses attributable to the Salary/Hourly Wage Reduction test, the borrower must evaluate the impact of the FTE Reduction Quotient.

Forgiveness Amount Calculation

1	Payroll Costs	<< From PPP Schedule A Line 10
2	+ Business Mortgage Interest Payments	
3	+ Business Rent or Lease Payments	
4	+ Business Utility Payments	
	Allowable Use Expense	
5	- Total Salary / Hourly Wage Reduction	<< From PPP Schedule A Line 3
6	Subtotal	
7	FTE Reduction Quotient	<< From PPP Schedule A, Line 13
8	Subtotal x. FTE Reduction Quotient	
9	<i>PPP Loan Amount</i>	
10	<i>Payroll Cost 75% Requirement (Divide Payroll Costs by 75%)</i>	
11	Forgiveness Amount - (Smallest of Quotient * Subtotal, PPP Loan Amount, Payroll Cost 75% Requirement)	



FTE REDUCTION QUOTIENT

- Employees that meet all of the following tests should be included in your quotient analysis:
 - Principal place of residence in the United States
 - Employed at any point during the Covered Period or the Alternative Payroll Covered Period
- **Does not include owner-employees, partners, self-employed individuals, or independent contractors.



FTE REDUCTION QUOTIENT

- Use average FTE during Covered/Alternative Payroll Covered Period
- For each employee, take the average number of hours worked per week and divide by 40 (round to nearest tenth). Maximum value for each employee is 1.0.
- Simplified FTE Method – Assigns 1.0 for ≥ 40 hours and 0.5 for < 40 hours
- Reference periods for calculation of Average Number of FTEE on payroll per month
 - 2/15/19 – 6/30/19
 - 1/1/20 – 2/29/20
 - SEASONAL: Any consecutive 12 week period between 5/1/19 – 9/15/19
- **Guidance lacks substantive discussion on furloughed employees, which could have meaningful impact on calculation.**



FTE REDUCTION QUOTIENT - EXEMPTION

- FTE Reduction Exceptions for Covered/Alternative Payroll Covered Periods.
 - Good faith, written offer to rehire employee rejected
 - Fired for cause, voluntarily resigned or voluntarily requested and received reduction of hours

- Each exemption counts as one FTE in the form's calculation of FTE.

- These Reduction Exceptions, if the positions are not re-hired, are additive to the FTE count in the Covered/Alternative Payroll Covered Periods.



FTE REDUCTION QUOTIENT - SAFEHARBOR

- Option 1:
 - Borrower reduced its FTE levels during 2/15/20-4/26/20 and
 - Borrower restored its FTE levels not later than 6/30/20 to its FTE levels in the Borrowers pay period that included 2/15/20
- Option 2 (**Not Verified – On PPP Schedule A**):
 - There has been no reduction in number of employees or average paid hours of employees between January 1, 2020 and the end of the Covered Period.



PUTTING IT ALL TOGETHER

Forgiveness Amount Calculation

1	Payroll Costs	<< From PPP Schedule A Line 10
2	+ Business Mortgage Interest Payments	
3	+ Business Rent or Lease Payments	
4	+ Business Utility Payments	
	Allowable Use Expense	
5	- Total Salary / Hourly Wage Reduction	<< From PPP Schedule A Line 3
6	Subtotal	
7	FTE Reduction Quotient	<< From PPP Schedule A, Line 13
8	Subtotal x. FTE Reduction Quotient	
9	<i>PPP Loan Amount</i>	
10	<i>Payroll Cost 75% Requirement (Divide Payroll Costs by 75%)</i>	
11	Forgiveness Amount - (Smallest of Quotient * Subtotal, PPP Loan Amount, Payroll Cost 75% Requirement)	

Take lowest of these 3 figures to determine amount forgiven



- The SBA will deduct EIDL advance amounts from the forgiveness amount remitted to the Lender



DOCUMENTATION

- PPP Loan Forgiveness Calculation Form (which includes Borrower Representations and Certifications)
- PPP Schedule A
- Payroll
 - Bank account statements OR 3rd party payroll provider reports documenting cash compensation to employees
 - Tax Forms or 3rd party payroll provider reports that overlap with the Covered or Alternative Covered periods:
 - Payroll tax filings reported or will be reported
 - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported or will be reported
 - Payment receipts, cancelled checks or account statements documenting the amount of employer contributions to employee health insurance and retirement plans that were included in forgiveness



DOCUMENTATION

➤ FTE

- Avg number of FTE employees on payroll per month employed by borrower between 2/15/19-6/30/19
- Avg number of FTE employees on payroll per month employed by borrower between 1/1/20-2/29/20
- *Seasonal – Any 12 week period Avg number of FTE employees between 5/1/19 – 9/15/19
- Source documents may include payroll tax filings or state quarterly business and individual payroll tax filings reported or will be reported – time period for documents may cover periods longer than the specific time period



DOCUMENTATION

- Non-payroll
 - Business Mortgage Interest Payments
 - Lender amortization schedule
 - Receipts or cancelled checks OR lender account statements from 2/20 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts
 - Business Rent/Lease Payments
 - Lease agreement
 - Receipts or cancelled checks OR lessor account statements from 2/20 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts
 - Utility Payments
 - Invoices from 2/20 and those paid during the Covered Period and receipts, cancelled checks or account statements verifying payment



DOCUMENTATION TO MAINTAIN

- PPP Schedule A Worksheet
- Supporting documentation for:
 - Each individual employee in Tables 1 and 2
 - Any employee job offers/refusals, firings for cause, voluntary resignations and written requests by employees for reductions in work schedule
 - FTE Reduction Safe Harbor calculations in the PPP Schedule A worksheet



DOCUMENTATION TO MAINTAIN

ALL RECORDS MUST BE MAINTAINED FOR **SIX YEARS** AFTER THE DATE THE LOAN IS FORGIVEN OR REPAYED IN FULL.



Questions?

