



Paycheck Protection Program (PPP) loan forgiveness guidelines

M.A.G.
Marino Advisory Group

Key PPP Flexibility Act changes

- Deadline – Small Businesses now have until August 8th to apply for the PPP Loan
- Forgiveness Spending Window – The SBA has extended the period within which borrowers must use the loan money from eight weeks to 24 weeks from date of disbursement.
- Payroll Requirements – The program now requires that at least 60% vs 75% of the loan be spent on payroll cost, the remaining 40% can be spent on other eligible cost such as utilities and rents.
- Safe Harbor – The Act now provides expanded “Safe Harbor” conditions for businesses that are able to 1) document that they were unable to hire or re-hire full-time equivalent (FTE) employees or 2) were unable to resume normal business activities due to COVID 19.
- Loan Period – The Flexibility Act increases the maturity period of loans granted after June 5, 2020 to five years vs two years previously.

PPP Flexibility Act Changes (cont.)



- Additional eligibility for payroll costs
 - Hazard pay and bonuses can now qualify as payroll cost which count toward loan forgiveness.
- Time Period Flexibility for Payroll
 - Option to use a covered or alternative period that more closely aligns with payroll cycle
 - Amounts incurred prior to the forgiveness period but paid during the forgiveness period are includable in forgiveness amount.
- Additional Exceptions
 - Rehire exemption date extended to 12/21/2020 from 6/30/2020
 - As part of the forgiveness example, the SBA provided 4 exceptions regarding workforce reductions: (1) those offered their job back but refused it in writing, (2) those fired for cause, (3) those who voluntarily resigned and (4) those who voluntarily sought a reduction in hours. The key is to get any of these situation in writing!
 - Two additional exceptions were provided in the Act: (1) if borrower can demonstrate an inability to hire similarly qualified employees for any workforce reductions or (2) if the borrower can "demonstrate an inability to return to the same level of business activity" compared to before 2/15/2020.

PPP Flexibility Act Changes (cont.)



- Forgiveness Formula
 - For hourly employees, it is only the hourly wage that matters and not any reduction in hours
 - While reduction in hours would not reduce forgiveness in this calculation, it could impact number of FTEs in the FTE Reduction Quotient.
- Exceptions for FTE Reductions
 - The FTE Safe Harbor is design to restore jobs that were lost between 2/15/ 2020 and 4/26/2020 and restoring them by 12/31/2020.
 - The SBA will allow for exceptions in workforce reductions for those who were either:
 - (1) laid off and offered their job back but refused to come back to work,
 - (2) fired for cause,
 - (3) voluntarily resigned or
 - (4) voluntarily sought a reduction in hours.

PPP Flexibility Act Changes (cont.)



- Expanding the definition of rent and prepayments
 - Forgiveness applications allow possibility of lease payments for capital or equipment rentals as well as the ability for borrowers to include rent and utility costs that happen on or before the next regular billing date, even if that date is outside the 8 weeks.
 - Non-payroll costs must be (1) paid during the Covered Period or, (2) for purposes of rent and utilities only (i.e. not mortgage interest), incurred during the Covered Period and paid on or before the next regular billing date even if the next billing date is afterwards. In this case, it is recommended to pro-rate the amount of the covered outside the cycle period.
- Delay Payment of Employer Payroll Taxes
 - Taxpayers that have a PPP Loan forgiven are now also eligible to delay payment of employer payroll taxes.

Loan Forgiveness Equations



1. Allowable payroll costs during the 24-week period
 - Amounts paid to employees and/or owners not to exceed \$15,385 per individual over the 8-week period. The new interim rule of 24-weeks maximum is \$46,154 per individual.
 - Employer contributions for employee retirement plans.
 - Employer contributions for employee health insurance, including contributions to a self-insured, employer-sponsored group health plan.
 - Amounts paid by the borrower for employer state and local taxes assessed on employee compensation (e.g., state unemployment insurance tax; do not list any taxes withheld from employee earnings).

Loan Forgiveness Equations (cont.)



2. Salary/Hourly Wage Reduction

- For each individual employee making \$100,000 or less annualized in 2019 or were hired in 2020, determine if pay was reduced by more than 25%.
- For those reduced by more than 25%, determine if the “Safe Harbor” for Salary/Hourly Wage Reduction is met by restoring wages in full for eligible employees by 12/31/2020.

Loan Forgiveness Equations (cont.)



3. FTE Reduction Quotient

- Determine if the FTE Reduction Safe Harbor is met. The Safe Harbor only applies for workforce reductions from 2/15/2020 – 4/26/2020 that are restored 12/31/2020 (was 6/30/2020).
- Determine the average FTEs during the 24 week Covered Period or Alternative Payroll Covered Period. Be sure to add back any FTE Reduction Exceptions talked about in previous slide.
- Select the baseline reference period by determining the fewest average number of FTEs during the following periods (this will be your denominator) below:
 - (1) 2/15/2019 through 6/30/2019 or
 - (2) 1/1/20 through 2/29/2020
- Calculate the FTE Reduction Quotient, not to exceed 100%
(Ave. FTEs during the 24 weeks / Avg. FTEs during reference period)

Loan Forgiveness Filing Options



Finally, the U.S. Small Business Administration (SBA), in consultation with Treasury, released a revised loan forgiveness application for the Paycheck Protection Program (PPP). The SBA also unveiled a new EZ application for forgiveness of PPP loans. Keep checking SBA website for updates.

The added EZ PPP Loan Forgiveness Application requires fewer calculations and less documentation than the full application. The EZ application can be used by borrowers that:

- Are self-employed and have no employees;
- Did not reduce the salaries or wages of their employees by more than 25% and did not reduce the number or hours of their employees; or
- Experienced reductions in business activity as a result of health directives related to COVID-19 and did not reduce the salaries or wages of their employees by more than 25%.

Additional Resources



Once you are ready to start your forgiveness application, visit the following sites:

PPP Loan Application - Long Form

- <https://www.sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application>
- <https://www.sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application-instructions-borrowers>

PPP Loan Application – EZ Form

- <https://www.sba.gov/document/sba-form-paycheck-protection-program-ez-loan-forgiveness-application-instructions-borrowers>

PPP Loan Forgiveness Takeaways



Once the amount is calculated, your lender will submit the information to the SBA within 60 days. The SBA will provide a final decision within 90 days of receiving your application from your lender.

- It is likely that additional guidance and adjustments to Loan Forgiveness rules will be forthcoming.
- Many open questions regarding strategies and specifics regarding allowable costs remain.
- It is important to consult accounting and legal advisors before implementing anything that may be outside of your normal course of business.
- This presentation is for informational and educational purposes only.

Because guidelines are still being provided by the SBA, we recommend waiting 24 weeks after your loan disbursement to apply for loan forgiveness. If you apply before guidance is finalized, you could risk reducing your forgiveness amount. However, verify with your lender as they might have other guidance.

Now, Life After PPP – What's Next?



- PPP funds will likely be fully utilized shortly, if not already.
- Many businesses have lost 50% or more of their pre COVID sales volume.
- What steps can you take to best position your company for survival and future growth?
- You may want to consider the following areas:
 - Cash Management – Rolling 13 Week Cash Flow Projections
 - Budget Revisions
 - Relationship Management

Cash Management



Cash is King!!!

Rolling 13 Week Cash Flow Projections to gain visibility of expected cash flows

- **Sources of Cash** – weekly projections by “major” customer
 - Expected collections on accounts receivable
 - Harder to predict than uses of cash
- **Uses of Cash** – weekly projections
 - Payroll and benefits
 - Rents, utilities, etc.
 - Major suppliers
 - You have greater control over your weekly spend

Company Name: ABC Inc.						
Weekly Cash Forecast						
	Budget	Actual	Variance		Projected	
	Week 1	Week 1	Week 1	Week 2	Week 3	Week 4
	7/17/2020	7/17/2020	7/17/2020	7/24/2020	7/31/2020	8/7/2020
Operating Uses of Cash						
Payroll / Taxes	40,000	42,000	(2,000)	40,000	40,000	40,000
Inventory	127,000	125,000	2,000	20,000	100,000	50,000
Insurance - Health, W/C & General	15,000	14,925	75	1,800	1,800	1,800
Utilities	-	-	-	10,000	7,250	-
Interest Expense - Line of Credit	-	-	-	-	-	-
Property Taxes	-	-	-	-	-	-
Freight - Subcontract	10,000	10,885	(885)	10,000	10,000	15,000
PIA Dues	-	-	-	-	1,000	-
Other	20,000	23,701	(3,701)	20,000	20,000	20,000
Total Operating Expenditures	212,000	216,511	(4,511)	101,800	180,050	126,800
Operating Sources of Cash						
Customer A	3,000	4,297	1,297	3,000	3,000	3,000
Customer B	-	-	-	-	10,000	-
Customer C	3,569	-	(3,569)	6,000	3,000	3,000
Customer D	55,000	110,000	55,000	-	55,000	55,000
Customer E	15,628	15,214	(414)	-	70,000	5,000
Customer F	6,000	4,817	(1,183)	6,000	6,000	6,000
Others	37,500	45,000	7,500	50,000	45,000	40,000
Total Sources of Cash	120,697	179,328	58,631	65,000	192,000	112,000
Net Operating Cash Flow	(91,303)	(37,183)	63,142	(36,800)	11,950	(14,800)
Line Availability:						
Beginning Line Balance	1,221,161	1,221,161	-	1,303,605	1,340,405	1,328,455
borrowing (repayment)	91,303	82,444	-	36,800	(11,950)	14,800
Ending Line Balance	1,312,464	1,303,605	8,859	1,340,405	1,328,455	1,343,255
LOC Availability				1,500,000	1,500,000	1,500,000
Net LOC Availability				159,595	171,545	156,745

Other Considerations



- **Supplier Relationships** – cash management tools provide visibility and ability to plan on supplier payments. Most will work with you so keep dialogue open where possible.
- **Receivable Management** – Utilizing the 13 Week Cash Flow helps with management of accounts receivable. Don't let collection efforts slide!!!
- **Other Programs** – programs such as *NYS Shared Work Program* could be considered to allow for retention of employees on a reduced schedule basis.

Budgeting



Just do it!!!

- Try to forecast a monthly budget or at least quarterly (sales, cost of sales, G&A)
- Pay attention to ratios (% of sales)
- Assists with cash flow analysis

Banking Relationship



- Your providers of operating lines of credit and debt will start to more closely scrutinize businesses and will likely be looking for cash management and budgeting/forecasting tools to be in place. Be proactive to gain their confidence.
- Covenants/Financial Ratios – Many businesses have reporting requirements so projecting and managing these is key. Have discussions early with your banking representative is important.

Contact Us

hmarino@marinoadvisorygroup.com

Or Call -

Harry Marino III, MBA
(585) 943-6740

Wayne Wawrzyniec
(716) 799-3119

CFO's - Consulting - Bookkeeping - Payroll
www.marinoadvisorygroup.com

