

KRANZ
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AN ADDISON GROUP COMPANY

Koffee with Kranz PPP Loan Forgiveness: Insights and Best Practices

April 30, 2020 | Webinar



**koffee
with kranz**

Enjoy a virtual cup of joe with a Kranz CFO

Our Speakers



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Agenda

- Introduction
- Observations
- Maximizing PPP loan forgiveness
- Employee and employment considerations
- Tracking forgiveness
- Q&A



Panelist PPP Loan Observations



Maximizing PPP Loan Forgiveness



Maximizing PPP Loan Forgiveness

The amount of PPP Loan Forgiveness may be up to the full principal amount of the PPP Loan and any accrued interest, so long as the Borrower maintains salary and employee counts, and all of the Loan proceeds are used for authorized purposes during the eight-week period beginning on the date the Lender makes the first disbursement of PPP Loan Funds to the Borrower. Eligible expenses are as follows:

- Payroll costs
 - Re-Hiring: Borrowers have until June 30, 2020 to restore full-time employment headcount and salary levels for reductions made between February 15, 2020 and April 26, 2020
- Continuation costs of group health care benefits (during periods of PTO for sick, medical, and FMLA) and insurance premiums
- Mortgage interest payments on mortgage obligations incurred before February 15, 2020 (i.e., does not include prepayment or payment of principal)
- Rent payments on leases dated before February 15, 2020
- Utility payments on service agreements dated before February 15, 2020

Maximizing PPP Loan Forgiveness continued

Although SBA guidance indicates that up to 100% of the PPP Loan principal and interest may be forgiven, full loan forgiveness is not a forgone conclusion. The amount of PPP Loan eligible for forgiveness depends in large part on the amount of loan proceeds used for Eligible Payroll Costs.

- Not all Payroll Costs are “Eligible Payroll Costs”
 - Employer paid payroll taxes (e.g., FICA) are not included in “eligible payroll costs” nor are they eligible for forgiveness
 - Employer paid leave amounts under the Families First Coronavirus Response Act are not “eligible payroll costs” nor eligible for forgiveness
 - Payroll costs are wages and salaries paid are limited to \$100,000 per employee on an annualized basis (i.e. \$3,846 on a bi-weekly basis)
- Employees may not want to go back to work...
 - Employers are competing against “boosted” Federal Unemployment Benefit up to an additional \$600/week for 16 weeks)

Maximizing PPP Loan Forgiveness continued

Once the amount eligible for forgiveness is determined based on eligible expenditures, the following limitations are considered:

- At least 75% of the PPP Loan proceeds must be used for payroll costs in order to be eligible for full forgiveness of the PPP Loan principal and interest amounts
 - No more than 25% of the loan forgiveness amount may be attributable to nonpayroll costs, and any excess amounts will not be eligible for forgiveness.
- Employee headcount and compensation reductions, applicable to both seasonal and non-seasonal businesses, must be factored in as detailed on the following slide.
- PPP Loan proceeds that were used to refinance Economic Injury Disaster Loan (EIDL) borrowed prior to January 31, 2020 are not eligible for forgiveness

PPP Loan Forgiveness Scenarios



Best Case: Reinstatement of FTEEs and Wages

Max Loan Amount:	2,000,000
Total Payroll Eligible for Forgiveness	1,600,000
Payroll Reductions:	
<i>Reduction in employees:</i>	(958,333)
<i>Reduction in salaries & wages:</i>	-
Add back: Rehires:	958,333
Total Allowable Payroll Costs	1,600,000
Total Non-Payroll Costs Eligible for Forgiveness	400,000
Non-Payroll Reductions:	
<i>Less excess over 25% Cap on Non-Payroll expense:</i>	-
Total Allowable Non-Payroll Costs:	400,000
Total Allowable Loan Forgiveness	2,000,000
Balance of Loan Not Forgiven	-

- PPP Loan Disbursement: \$2,000,000
- Avg FTEE (1/1/20 through 2/29/20): 192
- Avg FTEE (8 Weeks After disbursement): 192
- Covered Payroll Costs: \$1,600,000
- Covered Rent/Utility/Interest Expenses: \$400,000
- Reduction in FTEEs and Wages reinstated by 6/30/20: Yes
- Employer FICA and Medicare expenses (Not eligible for PPP Loan Use): (\$122,400)

Scenario 2:

Reduction in FTEEs and Wages not reinstated

Max Loan Amount:	2,000,000
Total Eligible for Forgiveness	853,333
Reductions:	
<i>Reduction in employees:</i>	(511,111)
<i>Reduction in salaries & wages:</i>	-
Add back: Rehires:	-
Total Loan Forgiveness	342,222
Balance of loan not forgiven	1,657,778

- PPP Loan Disbursement: \$2,000,000
- Avg FTEE (1/1/20 through 2/29/20): 192
- Avg FTEE (8 Weeks After Disbursement): 77
- Covered Payroll Costs: \$640,000
- Covered Rent/Utility/Interest Expenses: \$400,000
- 25% cap on Covered Rent/Utility/Mortgage Interest Expenses*: (\$186,667)
- **Reduction in FTEEs and Wages reinstated by 6/30/20: No**
- Employer FICA and Medicare expenses (Not eligible for PPP Loan Use): (\$48,960)

Scenario 3

Reduction in FTEEs and Wages reinstated

Max Loan Amount:	2,000,000
Total Eligible for Forgiveness	853,333
Reductions:	
<i>Reduction in employees:</i>	(511,111)
<i>Reduction in salaries & wages:</i>	-
Add back: Rehires:	511,111
Total Loan Forgiveness	853,333
Balance of loan not forgiven	1,146,667

- PPP Loan Disbursement: \$2,000,000
- Avg FTEE (1/1/20 through 2/29/20): 192
- Avg FTEE (8 Weeks After Disbursement): 77
- Covered Payroll Costs: \$640,000
- Covered Rent/Utility/Interest Expenses: \$400,000
- 25% cap on Covered Rent/Utility/Mortgage Interest Expenses*: (\$186,667)
- **Reduction in FTEEs and Wages reinstated by 6/30/20: Yes**
- Employer FICA and Medicare expenses (Not eligible for PPP Loan Use): (\$48,960)

HR and Payroll Considerations and other SBA credits

JUSTWORKS.





	FFCRA Credit	PPP Loan	ERC Credit	PDT Deferral
Purpose	help pay sick employees and employees home caring for a child out of school due to closure	help support businesses during slowdown to continue to pay employees	Reduce payroll taxes for businesses that do not fall under other programs	Help cash flow by postponing employer tax payments
who is eligible	<ul style="list-style-type: none"> Employers with <500 ees FT and PT employees 	<ul style="list-style-type: none"> Employers with <500 ees + sole proprietor, self employed, 1009 contractors. non profits 	<ul style="list-style-type: none"> Government ordered shutdown or partial suspension. Gross receipts < 50% of comparable 2019 qtr 	Any employer NOT applying for debt forgiveness for the PPP loan
Maximum amount	\$200/day x 10 days/EPSL_self & EFMLA \$511/day x 10 days /EPSL_self \$200/day X 10 weeks/EFMLA	2.5 x avg mo payroll No greater than \$10MM	50% of up to \$10,000 in wages/ee; max \$5k/ee	only applied to employer Social security
Applicable periods	4/1/2020-12/31/2020	2/15/2020 to 6/30/2020	Wages paid after 3/12/2020 - 1/1/2021	deposits due for period 3/27/2020-12/31/2020
Combining Programs	EPSL and EFMLA amounts can not be used or forgiven with PPP	Cannot combine with FFCRA ERC or PDT	can not combine with PPP or PTD	Cannot be combined with PPP or ERC

Documenting, tracking and applying



Proper Documentation:

Keeping track of how PPP loan proceeds are spent

Meticulous accounting and documentation of how PPP Loan funds are spent is imperative in order for a Borrower to provide the requisite documentation to the Lender (and ultimately the SBA) in support of its Loan Forgiveness Request.

Toward that end, proper controls, accounting, and documentation should be implemented and maintained regarding disbursement of PPP Loan Funds at least through the eight-week covered period, especially if PPP Loan Funds are commingled with other operating funds:



- Spend only for the authorized uses (e.g., payroll, mortgage, rent, utilities)
- Document spending allocation and disbursement decisions
- Consider holding PPP Loan Funds in an account separate from other operating funds to pay for authorized uses
- Consider adding detail to your accounting system to track these costs separately, including creating a cost center or class code with COVID

Applying for PPP Loan Forgiveness

In order to obtain partial or full PPP Loan Forgiveness, you must submit a request to the Lender servicing your loan after June 30, 2020 or at the end of the eight-week period beginning with the date of your first PPP Loan funds disbursement (if after June 30, 2020), which should include:

- Confirmation of payroll costs
- Documentation verifying the number of full-time equivalent employees and pay rates
- Documentation of invoices and payments on eligible mortgage, lease, and utility obligations
- Certification that all supporting documentation provided are true and that you used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments
- Additional documentation that may reasonably be requested by the Lender in support of the above

Q&A

Post-Event Wrap-up



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<https://kranz.addisongroup.com/koffee-with-kranz-0-1>



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Resources



[Justworks COVID-19 Response Center](#)



[The Matrix for COVID-19](#)



[COVID-19: Operational Tactics for Startups](#)



[COVID-19: Small Business Guidance & Loan Resources](#)



[Squar Milner COVID-19 Resource Center](#)

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