The CARES Act
(P.L. 116-136)

Paycheck Protection Program (PPP)

Loan Forgiveness Application
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The information and suggestions presented are subject to constant change and, therefore, should serve only as a foundation for further investigation and study. It is not authoritative. We would ask that you consult your tax or legal advisor for individual assistance with your specific situations.
What are the Adjustments that Potentially Reduce Loan Forgiveness (Lines 5 & 7 of Loan Forgiveness Application)?

The following areas related to Payroll Costs may create a reduction in your loan forgiveness amount:

1. **Full-Time Equivalent (FTE) Employee Reduction (Ln 7)** – the FTE employee count during your Covered Period (CP) or Alternative Payroll Covered Period (AP) (the period of time you disbursed your loan funds) is less than the FTE count for your chosen reference period (the period used for your PPP application).

2. **Salary/Hourly Wage Reduction (Ln 5)** – if you reduced certain employees salary or hourly wages by more than 25% during your CP or AP.
Do I need to do anything if my FTE count has not changed?

- If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of your CP or AP, check the box between Lines 10 and 11 of the PPP Schedule A and enter 1.0 on Line 13.

- This will eliminate the need to complete PPP Schedule A Lines 11 and 12 and Schedule A Worksheet Boxes 2 and 5.
FTE Safe Harbor: You are exempt from the loan forgiveness reduction based on FTE employee levels if both the following are met:

- You reduced your FTE employee levels between February 15, 2020 through April 26, 2020, and
- By June 30, 2020, you restored your FTE employee level back to the level that existed during the pay period that included February 15, 2020
EXCEPTIONS to the FTE Employee Reduction (Substantiation Documentation Required):

1. Any positions for which you make a good-faith, written offer to rehire an employee during the CP or AP which is rejected by the employee;

2. Any employee who during the CP or AP:
   a. Is fired for cause
   b. Voluntarily resigns
   c. Voluntarily requests and receives a reduction of hours

3. Note: *These FTEs are included in Schedule A Worksheet Table 1 only if the position is not filled with a new employee*
What information should I have available when I am ready to calculate the FTE reduction?

Average Full-Time Equivalent Employee Count:

a. Used in PPP Loan Application
b. During your Covered Period (CP) or your Alternative Payroll Covered Period (AP)
c. During period between February 15, 2020 and April 26, 2020
d. For the payroll period inclusive of February 15, 2020
e. As of June 30, 2020
What information should I have available when I am going to calculate the FTE reduction cont...

2 Different Options Available to Calculate Average FTE (Pg. 7 of application):

a. For each employee, the average number of hours paid per week, divided by 40, and rounded to the nearest tenth

b. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer than 40 hours per week

c. You may choose which one you are going to use
What do I do with the FTE’s? Start with the PPP Schedule A Worksheet (Pg 9).

Tables 1 and 2 – fill these out first:

a. For each employee listed in both Tables 1 and 2, include their average FTE during the CP or AP and calculate total

FTE Reduction Safe Harbor Calculation (bottom half of Worksheet):

a. List each employee’s average FTE and calculate total for the following periods:
   
i. Between February 15, 2020 and April 26, 2020 (assumed reduction period) (Step 1)
   
ii. For the pay period inclusive of February 15, 2020 (Step 2)
   
iii. As of June 30, 2020 (Step 4)
What do I do with the FTE information cont...?

a. **FTE Reduction Safe Harbor** - You will need to complete the FTE Reduction Safe Harbor located on Page 9 of the application (PPP Schedule A Worksheet) – Steps 1 – 5. *Note: there are exceptions which may require you to follow Item b below.*

b. **Full-Time Equivalency Reduction Calculation** – You will need to fill out Lines 11 – 13.

c. **Safe Harbor Met** - If your calculations above bring you to 1.0, you have met the Safe Harbor. No reduction required.

d. **Safe Harbor Not Met** - If your calculations are less than 1.0, it will reduce your entire adjusted Payroll and Nonpayroll Costs as calculated on Line 6 of Loan App.

e. Include amount calculate in Item c or d on Line 7 of the PPP Loan Application and calculate Modified Total on Line 8 accordingly.

f. This completes the FTE Reduction calculation.
What does the Salary/Hourly Wage Reduction mean?

➢ The actual amount of your loan forgiveness may be less than the full amount, depending on whether the salary or hourly wages of certain employees during the CP or AP was less than the period from January 1, 2020 to March 31, 2020.

➢ However, if during the CP or AP you then restore salary/hourly wage levels to where they meet the 25% or less reduction, you will be eligible for the elimination of the salary/hourly wage reduction.
Do I need to do anything if my employees salary or hourly wage has not been reduced?

➢ If you have not reduced your employees salary or hourly wage during your CP or AP, check the box on Line 3 of the PPP Schedule A and enter zero on Line 3

➢ What if their salary or hourly wage was increased?

➢ There is nothing you need to do unless they exceed the $100,000 threshold
What is the definition of Certain Employees?

➢ The actual definition is found in the statute as: Any single employee who did not receive during any single pay period during 2019, wages or salary at an annualized rate in an amount more than $100,000

➢ Within the application itself, you will only find the definition of Certain Employees implied in Table 1 of the PPP Schedule A Worksheet. Table 1 includes a column titled “Salary/ Hourly Wage Reduction”

➢ Table 2, which includes employees who received compensation of $100,000 or more, does not include this same column

➢ **Note:** Any amount of reduction for employees listed in Table 2 has no impact on the reduction calculation, hence, it is not included
What information do I need to have available when I calculate the Salary/Hourly Wage Reduction?

➢ You will need the average annual salary or hourly wage for each employee for each of the following periods:

a. During your Covered or Alternative Payroll Covered Period

b. Between the dates of January 1, 2020 and March 31, 2020

c. As of February 15, 2020

d. Between the dates of February 15, 2020 and April 26, 2020

e. As of June 30, 2020
What do I do with this Salary/Hourly Wage information?

1. For each employee you will need to figure the Salary/Hourly Wage amount as outlined in Steps 1 – 3 on Page 7 of the Instructions for PPP Schedule A Worksheet. 
   Note: After Step 3b there are two more unmarked “Steps” on the top of Page 8 to finalize, depending on whether the employee is a salaried or hourly paid worker.

2. The amount of last two “unmarked steps” on Page 8 are carried to Box 3 for each employee listed in Table 1 with the column titled Salary/Hourly Wage Reduction.

3. The total of Box 3 will then be brought to Line 3 of the PPP Schedule A
   a. Line 3 of the PPP Schedule A will then be brought to Line 5 of the PPP Loan Application. This amount reduces all Payroll and Nonpayroll Costs entered on Lines 1 - 4 of the PPP Loan Application.
   b. This completes the Salary/Hourly Wage Reduction calculation.
Closing comments / suggestions for consideration

➢ If you utilize a payroll service company, use the tools they have available to assist you with both the FTE and Salary/Hourly Wage reduction adjustments. If you have not already contacted them, I would not wait until your CP or AP is complete.

➢ If you are calculating the FTE and Salary/Hourly Wage computation manually, I would recommend creating an excel document with the various columns titled for the various periods needed. You do not have to submit the Worksheet with the application.
Closing comments cont...

➢ **Document Retention**: Review Page 10 section of the application addressing document retention section carefully. In summary, you must retain all documentation for 6 years after the date the loan is forgiven OR the loan is repaid in full.

➢ **Stay tuned**…for the possibility of further clarification between now and your application due date. There is already a bipartisan PPP bill in the works.

➢ Utilize the SBA website for updates: [www.sba.gov](http://www.sba.gov)
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