ppp webinar faq

Was it stated that payroll and non-payroll cost are extended 24 weeks or only payroll costs?

The Flexibility Act extended the Covered Period to the earlier of 24 weeks from the date the loan proceeds were received or December 31, 2020. The Covered Period is the period of time during which the PPP loan proceeds can be spent on permitted expenditures to qualify for forgiveness. The extended 24-week period under the Flexibility Act includes both Payroll Cost and Qualified Non-Payroll Costs that we discussed.

An example I mentioned that might have brought on some confusion was the following:

Charity A has decided to elect the 24-week Covered Period and received a PPP loan of $400,000. Charity A's loan forgiveness application will be asking how Charity A spent the $400,000 loan proceeds.

During the 24-week period Charity incurred and paid $250,000 of payroll costs and incurred and paid $250,000 of Non-payroll costs. Charity A during the 24 week period incurred more expenses than the amount of the PPP loan.

Charity A met the 60% eligible payroll cost rule since the PPP loan was $400,000 and Charity A incurred/paid $250,000 of eligible payroll costs. (60% of $400,000 = $240,000). When completing your loan forgiveness application, Charity A can reported that they paid and incurred $250,000 of eligible payroll costs and $150,000 of qualified non-payroll costs.

If there is potential of receiving more CARES money in the future, wouldn't the eight-week period be more desirable? Don't you have to reduce loan amounts by CARES money received from grants?

I am not 100% sure that I'm going to answer your question. If I am not, please call me at 414-559-6103 to discuss (Bryan's cell).

As Stephanie mentioned, an organization cannot use the same expenses that are covered under grant to satisfy PPP loan forgiveness requirements. If a charity obtained their PPP loan prior to the enactment date of the Flexibility Act, June 5, 2020, and can satisfies all of the PPP requirements so that its loan will be 100% forgiven, YES, the charity should elect the eight-week period.

A charity that has obtained their PPP loan prior to June 5, 2020 needs to decide which Covered Period (eight or 24 weeks) is the best for their situation. If a charity does not have confidence that they can maintain FTE and/or Wages as of December 31, they may better off electing the eight-week Covered Period with a 90% forgivable loan than taking the risk under the 24-week period.

You talked about wage reductions, but what about increases or the payment of bonuses using PPP funds?

You are correct. Paying bonuses are permitted and will help. A planning point is to maximize cash compensation to employees as much as is needed and possible during the Covered Period to avoid the wage reduction analysis which can cause a reduction of the potential forgiveness amount. Keep in mind the $15,385/$46,154 (8 week/24 week) limit on cash compensation.

We covered a tremendous amount of information in an hour presentation. This analysis helped me understand the **basic** framework of the PPP loan forgiveness.

- Loan Proceeds $500,000 (fill in an amount)

- At least 60% of the costs ($500,000) counting toward the forgiveness amount must be for eligible payroll costs. Here is where you determine your amounts of eligible payroll costs and qualified non-payroll costs during the applicable Covered Period.

- The sum of the eligible payroll costs and the qualified non-payroll costs (not to exceed the PPP loan amount) represents the <u>Potential Loan Forgiveness Amount</u>.

- <u>The Potential Loan Forgiveness Amount</u> may be reduced by:
  - The Wage Reduction Amount - If the Charity reduces employee pay for each individual employee by more than 25% OR
  - The FTE Reduction Percentage - If the Charity reduced the number of FTEs during the applicable Covered Period (as we discussed there are exceptions and safe harbors that apply to each of these potential reductions)

The Wage Reduction Amount is a dollar for dollar reduction of the potential loan forgiveness amount and is applied first; the FTE Reduction % is a percentage amount that is applied next and once the Revised Loan Forgiveness Amount is calculated for the two potential reductions, this Revised Amount is tested to ensure payroll costs constitutes at 60% of the forgiveness amount.

So if our FTEs during the loan period are greater than the FTEs during the Jan 1 - Feb 29, 2020, AND we meet the 60% payroll number, that is an automatic forgiveness?

You are almost there. The remaining 40% of loan proceeds can be spent on additional payroll cost as well as eligible expenses such as rent, utilities, and mortgage interest. You will also need to determine if your organization had any potential salary and wage reduction for each employee during the Covered Period. Please keep in mind the Wage Reduction Safe Harbor.

Also keep in mind that there is no automatic forgiveness and your loan forgiveness application must be filled out properly with supporting documentation submitted to your lender who will then either approve or deny any loan forgiveness. The lender has 60 days to make that decision and then passes the loan forgiveness application over to the SBA, who can also review the loan forgiveness application and make the determination whether they agree or disagree with the lender decision. They have an additional 90 days to complete the process.

What if you meet all requirements at eight weeks, but business falls off and you are not a full employment at ten weeks or 12 weeks or Dec 31

If electing the eight-week period, you will have to ensure to keep any employees through June 30, 2020 who were re-hired in accordance with safe harbor provisions and exemptions.

If you obtained your PPP loan prior to June 5, 2020, YES, you should elect the eight-week period.

If I do the 24-week loan do I have to allocate payroll and non-payroll over the entire 24 weeks or as long as I have expenses within that time period I should be okay, correct?

Very, very important to determine your eligible payroll cost for the entire 24 weeks (Covered Period). Equally important, is to determine your potential reductions of the PPP Loan Forgiveness (Wage Reduction Amount and FTE Reduction %). Rounding it out with determining the amount of your qualified non-payroll costs during the 24 weeks.

The majority of our full-time salaried employees are paid based on 37.5 hours per week. Will there be further discussion/options regarding the FTE calculation since the 40 hours = 1 FTE will not be a viable option for us?

The FTE reduction calculation was designed to take your situation into consideration. You will not be able to have a FTE person, but you will not be harmed as long as the 37.5 hour work week is consistent with your Covered Period and certain prior periods. The FTE reduction calculation is a percentage and it compares your FTEs during the Covered Period to your FTEs during your "Chosen Period" which is one of the two periods (1) February 15, 2019 through June 30, 2019 or January 1, 2020 through February 29, 2020. You can elect which period to use (ie "Chosen Period")

To isolate this specific point – let's say Employee A, B and C each worked 37.5 hours per week during the Covered Period and also worked 37.5 hours per week from January 1, 2020 through February 29, 2020 (Your Chosen Period). The calculation requires us to compare our employees hours per week to 40 hours to determine the # of FTEs.

Covered Period

- Employee A 37.5 hours per week/40 hour per week = .94 FTE
- Employee B 37.5 hours per week/40 hour per week = .94 FTE
- Employee C 37.5 hours per week/40 hour per week = .94 FTE

Total FTEs 2.82 FTE

Chosen Period January 1, 2020 through February 29, 2020

- Employee A 37.5 hours per week/40 hour per week = .94 FTE
- Employee B 37.5 hours per week/40 hour per week = .94 FTE
- Employee C 37.5 hours per week/40 hour per week = .94 FTE

Total FTEs 2.82 FTE

The number of FTEs during our Covered Period is 2.82 FTEs and our FTEs during our Chosen Period is 2.82 therefore our percentage is 100% (2.82/2.82). We did not incur a reduction in FTEs and our Total Potential Loan Forgiveness is not reduced by this calculation.

If we can't double dip on governmental reimbursed payroll costs, what happens if a grant is not renewed resulting in the elimination of staff. Can we exclude the FTEs as well as the payroll costs in our calculations?

This would be situational. The situation would be could you consider still offering that program utilizing PPP funds to offset the payroll costs of administering the program that the discontinued grant is no longer covering. As a reminder the PPP loan program funds were to keep people employed. Currently, the safe harbor provisions for FTE does not include anything regarding discontinuing of a program within the Organization. A case could probably be made if you intended to do so prior to COVID, or if you were informed the grant would discontinue prior to COVID. The recommendation would be to reach out to your bank to explain your situation.

So, it is not considered a loan on the liability side? I would/should record as deferred revenue?

As noted, there has been no established guidance for nonprofits regarding the proper recording in accordance with GAAP. With that being said, the consensus between professionals is that it would be first recorded as deferred revenue and would be recorded under revenue recognition standards for grants and contributions. It would not be recorded as a loan unless determined or when determined a portion would not be forgiven. We anticipate very soon there will be a decision made in the profession and upon that decision we will release a statement via e-mail to our database. As a reminder to stay up to date on information, we do recommend signing up for our e-mail communications as we are providing up to date communication frequently.