

June 29, 2020

# PPP Applications Ending: What you Should Know Moving Forward

As the PPP loan reaches millions of small businesses, congress updated the guidance, and the deadline inches closer. If you have not applied for your PPP loan, this newsletter will outline what you need to know - remember the application deadline is June 30<sup>th</sup>. If you have received your loan, there is some new guidance with the PPP Flexibility Act and AICPA guidance that you should know. This is the latest information available as of June 26, 2020.

*During the unprecedented event of COVID-19, it is important to stay up to date with the latest news from The US Chamber of Commerce, The US Small Business Administration, The US Treasury Department, your bank's policies, and your trusted Griffing & Company, P.C. advisors who are navigating the legislation. This is our latest understanding of the legislation.*

### Quick Facts (June 24th)

Approved Loans = 4,718,798

Approved Dollars = \$516,503,456,164

Average Loan Size = \$109,456

# Participating Lenders = 5,457



Source: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

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### General Information & Eligibility

As previously mentioned, we are still in the application phase through June 30th. Companies of under 500 employees are eligible to apply. This includes sole proprietors, independent contractors, and self-employed individuals, as well. There is also an exception for NAICS code 72 companies, which allows for individual franchisees to apply separately for the loan. The loan amounts to 2.5 x average monthly payroll costs (with an upper limit of \$10M), which can be calculated using financial statements from 2019. To be entirely forgiven, 60% of the loan must be used on payroll costs. Payroll costs include the following: wages, bonuses, vacation and sick pay, healthcare premiums (see table below), and retirement contributions (see table below).

## Other Payroll Compensation

<u>Business Entity</u>	<u>Self-Employed Schedule C or F</u>	<u>S Corp Owner (AND Employee)</u>	<u>C Corp Owner (AND Employee)</u>
<u>Health Insurance Eligibility</u>	NO	NO	Yes (with Cap)
<u>Retirement Eligibility</u>	NO	Yes (with Cap)	Yes (with Cap)

Other uses for the remaining non-payroll percentage include rent, utilities, interest on mortgage, debt obligations (if the debt obligation existed before February 15, 2020).

For more information on the employee retention requirement, see the sections regarding Safe Harbor and Calculating FTE below.

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## **PPP Flexibility Act (PPPFA) Updates**

There have been several changes to the terms and conditions of this loan with the PPPFA on June 4, 2020.

- Covered Period: the loan can now be used within a 24-week window OR the original 8-week window. When choosing your best option, consult the table below:

### **8 Weeks**

- If FTE count potentially decreasing (or business tapering off) in the future, you may be happier with an earlier deadline
- Faster loan forgiveness (will not be outstanding for long)
- Know the rules NOW, no risk of the rules changing before your loan has been forgiven.
- If your business needs another loan, better to get this one out of the way

### **24 Weeks**

- Easier to meet benchmarks
- Rules may become clearer over time negotiation tool
- If your company does not survive, higher debt on balance sheet might be beneficial
- More time to plan
- NOTE: Borrowers who choose 24 weeks, can file for forgiveness immediately after they've spent proceeds of loan; they do not need to wait the full 24 weeks.

- **Payroll cost requirement**: as mentioned previously, 60% of the loan must be used on payroll costs to be eligible for full forgiveness.

- **Non-forgivable portion**: For loans issued AFTER June 5th, if the loan does not meet forgiveness requirements, the new terms for the loan are very favorable with a 5-year term, 1% fixed interest rate, and no loan/prepayment fees.

For loans issued BEFORE June 5th, your loan is subject to a 2-year term. The term can be extended to 5-years, but that is only available through cooperation with your bank, as there is no further guidance.

- **SAFE HARBOR**: There are four uses of Safe Harbor exemptions regarding the FTE levels:

1. If you are unable to rehire your employees, you must provide evidence of an employment offer AND a written rejection letter from said employee.
2. If you cannot find qualified people (for example if the job requires a license to practice and you are not finding qualified applicants)
3. If CDC, HHS, or OSHA guidelines interrupt your business to the point of being unable to run your business and comply with the guidelines.
4. Employee: quits, asks for reduced hours, or is fired for just cause.

- **Employer Payroll Tax Deferrals:** Previously, employers who received a PPP loan could not apply for the two-year deferral of employer's share of social security tax. This restriction has been lifted. The taxes are due in two installments: December of 2021 and December of 2022. Please note, this deferment only covers the first \$137,700 of employee wages.

### **Calculating FTE**

One important question from many of our clientele was how to go about measuring full time employees in order to calculate the average payroll costs. Employees working 40 hours or more per week are considered 1 FTE. There are two ways to account for your part time employees. You can either:



1. Count each part time employee as .5 OR
2. Average the hours of part time employees together

This calculation is based on how many full-time employees you “normally” have. The date for what is “normal” varies case by case (seasonal work, new businesses, long standing businesses). Further detail might be needed for your situation, please give Griffing & Company, P.C. a call regarding your specific case.

The Flexibility Act extends the restoration of FTE counts as of 2/15/2020 through 12/31/2020 or the date of the forgiveness application, if earlier.

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### **Forgiveness**

- Be advised that banks are not accepting forgiveness applications at this time. The consensus points to a late July opening for applications. Check with your banker or lender for more information.
- There are two forgiveness forms available on the SBA website. There is an easier self-employed form and a “Long Form” for other business entities  
<https://www.sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application-revised-6-16-2020>
- The AICPA has a Forgiveness Calculator: <https://future.aicpa.org/resources/download/ppp-loan-forgiveness-calculator-excel>
- Please note, if wages are reduced more than 25% (compared to February 25th, 2020) forgiveness is reduced.

### **Additional things to keep in mind**



With all this information, what should you focus on over the next few months?

- Track your PPP loan spending. You want to be sure you maintain the percentage of PPP funds spent on payroll through the covered period to be eligible for forgiveness. If you work with a payroll provider and they are developing reports specifically for the PPP loans, be sure to gather these reports.
- Will you be able to increase reduced wages by the end of your covered period or December 2020? This is a crucial condition for the PPP loan.

## Other CARES Act Developments

The IRS announced that anyone who took a required minimum distribution (RMD) in 2020 from their retirement account can now roll those funds back into a retirement account by August 31, 2020. This is an extension of the rollover period and is applicable to inherited IRA's as well. For more information on this development and how it could affect you, please call our offices at 281-491-8866.

## Sources to Bookmark

- The US Treasury Department: <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
  - The Small Business Administration: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>
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Despite these trying times, please know we are still here for you. If you require any assistance with your PPP loan, please don't hesitate to call or email us.

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**GRIFFING & COMPANY, P.C.**  
One Sugar Creek Center Blvd., Suite 650  
Sugar Land, TX 77478  
(281) 491-8866 Fax (281) 491-8998  
[info@griffing.com](mailto:info@griffing.com)  
[www.griffing.com](http://www.griffing.com)