About Claire & Jill

Claire...
- Runs a boutique accountancy for small business & creative entrepreneurs
- Specializes in business operations, setting up systems & processes for small business scalability
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Jill...
- Specializes in growing self-funded small business
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What We’ll Cover

- **Payroll Protection Program Flexibility Act (PPPFA)** - new legislation passed this week

- **Forgiveness Application** - the data you’ll need & the calculations you’ll do

- **The Fine Print** - commonly asked questions

- **Best Practices** - how to track what you used to make this form easier
Who It’s For

You’re in the right place if:

- Self-employed / independent contractor / freelancer
- One-person company
- Business owner of a company of any legal structure with W-2 payroll and/or owners distributions
- Leader of a 501(c)3, Tribal, or veterans organization
What You’ll Get After This Session

Everyone here will receive:

● The session recording
● The session presentation
● Any links / resources we reference

You are welcome to:

● Share these resources with your fellow business owners
● Post screen shots photos from this session on social media
● Follow up with us with specific questions
Payroll Protection Program
Flexibility Act
June 5, 2020
In **HR 7010**, Congress has nearly unanimously passed rules making it easier to use all your PPP funds.

The Senate passed on June 3.

*At the time of writing, we were waiting for the President to sign into law.*
## The Critical Changes

<table>
<thead>
<tr>
<th>Term</th>
<th>OG PPP</th>
<th>PPP Flexibility Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Period</td>
<td>8 weeks</td>
<td>24 weeks or 12/31</td>
</tr>
<tr>
<td>Payroll Expenses</td>
<td>75%</td>
<td>60%</td>
</tr>
<tr>
<td>Workforce Restoration</td>
<td>June 30</td>
<td>December 31</td>
</tr>
<tr>
<td>Payback Period</td>
<td>2 years</td>
<td>5 years</td>
</tr>
<tr>
<td>IRS Payroll Tax Deferral</td>
<td>No</td>
<td>Yes!</td>
</tr>
<tr>
<td>Repayment Deferral</td>
<td>6 months</td>
<td>Until forgiveness is determined</td>
</tr>
</tbody>
</table>
Of course, we need some fine print, or it wouldn’t be PPP.

- The program loan application deadline is still June 30.
- You have to opt-in to the 24-week use period. Otherwise, still 8 weeks.
- 60% MUST be used for payroll-related expenses or you get 0% forgivability. (Sens. Rubio & Collins indicated they will continue to work on restoring the sliding scale.)
- Clarification on hire backs - you can get credit if COVID-19 operating restrictions limit your capacity / reopening
- Allowed expenses are still rent, mortgage interest, and utilities. PPE was NOT added
What We Don’t Know Yet

- How the SBA will interpret these rules - expect an FAQ update next Friday night (12 June)
- How these changes affect sole proprietor owners equity replacement
- Whether you can apply forgiveness when funds are exhausted & you’ve met rehiring, or must wait until 24 weeks
There’s Still Time to Apply

- As of last Friday, $100B in funding remaining
- If you know someone who would benefit under these new rules, encourage them to apply asap
- If funding lasts through June, applications will close on June 30
Overview: PPP Timeline + Requirements

You have 90 days to provide forgiveness request & proof to your lender

Your lender then has 60 days to get back to you

8 or 24 weeks begins the date your bank deposits the loan funds

December 31 is the deadline for re-hiring employees
The Forgiveness Application
A Note on This Section

We expect two updates to the forgiveness application:

- New 60/40 proportions
- Timelines and forgiveness calculators for 24-week users

If you are planning to use 100% of funds in your original 8-week period, we expect the application rules will apply with new proportions (60/40 instead of 75/25).

We’re proceeding as if you’ll be using your funds within the 8-week period and 60/40 will apply the same as 75/25 did.
What It Is And Where To Find It

The forgiveness application is an 11-page guidance document of information that all lenders will require.

Your lender can require additional information.

Find it here:

CAVEAT: We expect an iteration of this worksheet based on HR 7010
Print Out Pages 2 and 10!

**Page 2** lists all costs eligible for forgiveness.

**Page 10** details exactly which forms of documentation can be used. For each category, the SBA offers more than one option.

For example, if you don’t use a payroll provider or have Form 941 payroll filings, you can use:

- bank account statements
- cancelled checks
- payment receipts
How To Approach It

If you do not have **EMPLOYEES**, this process is fairly straightforward. If you do, you’ve got some serious work to do.

Understand that your **MAXIMUM LOAN** may be different than your **ELIGIBILITY CALCULATION**.

This entire process is keyed to determining if you’ve met the payroll & employment requirements.

You will need to provide evidence of use of your qualified non-payroll expenses, but you do not need to enter them in detail in the application.
How To Approach It (Cont.)

Work backward.

First, determine your **FTE COUNTING METHOD**.

Next, go to pages 7-9 with the **SCHEDULE A WORKSHEET**. This document does not need to be returned to your lender, but you do need to keep it in your files.

Do **SCHEDULE A** next.

Do the **CALCULATION FORM** last.
Information You Will Need

- Whether you are using loan funding date or alternate payroll period
- A determination of which option for “employment period”
- A list of all of your full-time and part-time employees (W-2) and their compensation on February 15, 2020
  - For your employees who made less than $100,000, cash compensation amount
  - Note of any employee who had their wages reduced by more than 25% from Q1 2020
- The same list as of June 30, 2020 or the end of your 24-week period
Eligible Payroll Expenses

- Wages, salaries, commissions, tips, capped at annual $100,000 per employee ($15,385 for 8 weeks)
- Above and beyond the $100k cap
  - Sick leave or paid time off that is NOT covered by FFCRA
  - Group health benefits
  - State & local payroll tax
  - Employer contributions to retirement plans

*Wages paid does not include federal employer payroll tax*

**Some payroll providers have pre-set reports to help track your payroll expenses**
Other Qualified Expenses

The SBA defines “other qualified expenses” as...

- Utilities - phone, mobile phone, internet, power, gas, water, trash, transportation
- Rent or Lease Obligation*
- Business mortgage interest*

*lease / debt must be have been established by February 15, 2020
FTE Counting Method

For PPP purposes, **full time = 40 hours**

You have two options for calculating your FTEs:

- **Simple:**
  - For those who worked 40 hours or more on average, assign 1.0
  - For those who worked fewer than 40 hours on average, assign 0.5

- **Fractional:** *a good option if your p/t are mostly over 20 hours*
  - For those who worked 40 hours or more, assign 1.0.
  - For those who worked fewer than 40 hours, take their average for the period and divide by 40 to determine fractional employment.
Allowed FTE Reductions

You can count the employee’s average at their previous percentage if:

- They were fired for cause
- They resigned voluntarily
- They requested and received a reduction in hours
- They were offered their job back and declined to return

If a departed employee was replaced by an equivalent new employee, use the new employee in your counts.

If the head was unfilled, you can count the previous employee.
Choosing a Time Period ("Reference Period")

You can choose the most beneficial calculation of time:

- **Start date:**
  - Loan funding date = Covered Period
  - First day of the next pay period = Alternate Covered Period

- **FTE period**
  - February 15, 2019 - June 30, 2019
  - January 1, 2020 - February 29, 2020
  - Seasonal: The two above or any 12-week period from 5/1/2019 - 9/15/2019
If you are an owner-employee, self-employed individual, or general partner in the business, your compensation does NOT go into Table 1 or Table 2.

You will note your compensation (still capped at $15,385) on Line 9 of Schedule A.

If you are your only employee,

you do NOT have to complete this worksheet.
List all employees who worked for you during the loan period who received less than $100,000 ($15,385 for 8 weeks) in cash compensation.

Add their Average FTE.

If you reduced their salary or wage by more than 25% from the period of Q1 2020 and did not restore them to full wage/salary by June 30, note their salary or wage reduction.

If they worked less than a year, annualize all pay periods.

Add up your totals in Boxes 1, 2, and 3.
List all employees who worked for you during the loan period who received MORE than $100,000 ($15,385 for 8 weeks) in cash compensation.

Add their cash compensation at the maximum rate of $15,385.

Add their Average FTE number.

Add up your totals in Boxes 4 and 5.
FTE Reduction Safe Harbor

Again, not required if you are a 1-person company.

Follow the guidelines to compare whether you’ve met the requirement of rehiring enough of your employees with their original wages / salaries.

If you get 1.0 or higher, you’ve reached safe harbor on your payroll-related requirements.

If you get less than 1.0, you’ll need to complete Line 13 of the Schedule A to find your FTE Reduction Quotient.
Schedule A (Page 6)

Use your Schedule A Worksheet to fill in Lines 1-5

- Line 6: total paid for employee health insurance
- Line 7: total paid for employee retirement plan
- Line 8: total paid for state & local payroll taxes
- Line 9: compensation to owner-employees, self-employed individuals, or general partners
- Line 10: add it all up for your Total Payroll Costs
- If you did NOT reach Safe Harbor for your FTEs, complete Lines 11-13 to find your FTE Reduction Quotient
Calculation Form (Page 3)

- Top section: recap for your lender
  - W-2 Employees at time of loan application & forgiveness application
  - If you received an EIDL Advance Grant, you must include it. It reduces your forgiveness.
  - Payroll schedule
  - Dates of Covered Period or Alternative Payroll Period

- Line 1: Payroll Costs from your Schedule A
- Lines 2-4: Mortgage Interest, Rent / Lease Payments, Utility Payments
- Lines 5-7: FTE & Wage Reduction impacts
- Lines 8-10: Possible forgiveness amounts
Possible Forgiveness Amounts

Forgiveness is the lesser of:

1. Salary/Wage reductions x Reduction Quotient
2. Total PPP loan amount
3. Payroll cost 60% Requirement

If 1 or 2 is the smallest amount, that’s your forgiveness amount

Under the new rules, if you do NOT meet Criteria 3, your forgiveness goes to 0.

CALL YOUR SENATORS!
Self-Employed Forgiveness
How to calculate 8 weeks of “payroll”

1. Look at your 2019 Schedule C income (profit) from business activities
2. Multiple by 0.154 \( (0.154 = 8 \text{ weeks} / 52 \text{ weeks in a year}) \)
3. This total is your “owner compensation replacement” aka payroll

Example: $10,000 (2019 Schedule C income) x 0.154 = $1,540

Transfer this amount to yourself at any time during your 8-week forgiveness window and BOOM you’ve met the payroll requirement!
What about the rest of the funds?

*You can use the balance for the following expenses...

- Utilities
- Mortgage interest that existed before 2/15/20
- Rent or a lease payment established on or before 2/15/20
- Retirement contribution

* These expenses can only be forgiven IF you claimed these same expenses as a business deduction as part of your 2019 Form 1040 Schedule C
The Fine Print
When does the 8-week clock start?

The day your lender deposits funds into your bank account OR first day of next pay period.
What if I don’t use my $$ within 8 weeks?

If you’re not able to use the funds in 8 weeks, opt into the 24-week timeline.
What if my employees don’t want to return?

If you...

● Make the offer in writing
● For the same job at the same wage

& then...

● Your former employee declines to return in writing...your employee counts as “returned” for forgiveness

*You must include the offer & decline in your forgiveness documentation
What if I can’t open or my capacity is restricted?

If you are impacted by COVID-19 government restrictions

● You can document that you were not able to rehire due to capacity or operating constraints

● This is NEW. You will most likely be opting into the 24-week period and exact administration is TBD.
What if I don’t have enough qualified expenses to use the other 40%?

You can use up to 100% on payroll.

Opting into the longer 24-week period will give you more payroll periods to use the funds.
What happens if part of my loan isn’t forgiven?

It’s possible to get partial forgiveness. The balance of the loan and any accrued interest will need to be paid back, from the day *your forgiveness is determined*.

If you don’t want to have a loan after that, you must pay off the balance ASAP!

If you decide to keep the balance, assume you still have to use it for qualified expenses (we don’t know yet)

**Term is 5 years at 1% interest per year. Interest starts to accrue on 5/15 but your 1st payment is deferred until your forgiveness is determined**

*Your bank paperwork states the accrual terms (monthly, daily)*
The EIDL Advance grant I received counts against my forgiveness - true or false?

**TRUE.** Proceeds from an EIDL Emergency Advance grant will be deducted from the loan forgiveness amount on the PPP loan.

Even if you do everything right, you would owe PPP repayment of the amount of your grant and a small amount of interest.

If that repayment will be an issue for you, reserve the EIDL grant, or return the same amount to your PPP lender now.
Best Practices for Forgiveness
Where should I receive the money?

Best practice - open a dedicated bank account!

This will ensure that as part of the forgiveness process that your funds not only sit separately from the rest of your funds, but that any allocation of it is crystal clear.

If you are unable to open a new bank account, and you have an extra checking or savings account that is empty or unused (with a very small balance), this works too! Put your funds there.
How do I put this on my books?

Create new categories designated to PPP expenses

If you are allocating your funds to Rent, Utilities or Internet, or any of the other expenses we’ve mentioned, create separate PPP categories that you will code to during the 8 week window that should look something like this...

- PPP Expenses - Rent
- PPP Expenses - Utilities
- PPP Expenses - Internet

This way, you can easily reference how much you’ve allocated to PPP Expenses.