

Lucas Horsfall Presents

COVID-19 Webinar Series

Making the Most of PPP Loan Forgiveness

Friday, May 22 | 10:00 - 11:00 AM PT



Speaker
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Introduction

- Lucas Horsfall's professionals directly improve the bottom line with a holistic tax liability mindset.
- Levering extensive experience the team is will equipped to help companies navigate the uncertainty surrounding the Paycheck Protection Program Loan process with advice tailored to your needs.
- Today's team is comprised of three of our best in class tax partners, each with a unique perspective on the PPP loan.



Ariel provides personal tax planning and business advisory services to closely held corporations and high net worth individuals, helping clients minimize the total impact of business, income and estate taxes. His expertise are in the areas of professional service corporations, estate and fiduciary taxation, real estate development and management, not-for-profit entities and multi-state activities.



Leslie leverages her deep knowledge of the regulatory landscape to help clients anticipate and plan for emerging issues. She provides sophisticated advice that factors in all aspects of a tax position for closely held and middle market businesses. She also leads the firm's International tax practice group.



Originally hired by Lucas Horsfall in 1983, Jim manages the Firm's Encino office. Jim provides accounting, tax, estate and advisory services to family businesses and high net worth individuals. Jim has specific industry expertise with professional corporations, real estate development, investment and exchanges.

Disclaimer

- ▶ If any information contained in or attached to this email communication is related to legislative COVID-19 relief measures, it is based on currently available information. Although our firm has made every reasonable effort to ensure that any information provided related to COVID-19 legislation is accurate, we make no warranties, expressed or implied, on such information. Further, since legislative efforts are still ongoing, there may be additional legislation, as well as guidance and clarity from regulators, which may modify any legislative measures discussed. Some of those modifications may be significant and could affect any eligibility for benefits. The determination whether to apply for benefits, which benefits to apply for, and the amount applied for is your responsibility. Transmission of this information alone is not intended to create, and receipt does not constitute, any client-firm relationship. For specific tax or professional advice, including an analysis of how legislative COVID-19 relief measures may impact you or your business, please contact a member of our firm.

Purpose of the Webcast

- Create a game plan to maximize the portion of the loan forgiveness
- Understanding of the PPP Loan Forgiveness Calculation Form
- SBA released Form 3508 – Paycheck Protection Program Loan Forgiveness Application
 - Lenders will most likely issue their own SBA approved calculators
 - AICPA released a forgiveness calculator. On our website
- Program Rules as of today
 - Frequently Asked Questions (5/19/2020)
 - Interim Final Rule
 - First Rule originally posted April 2, 2020
 - Latest Rule posted May 20, 2020 is the thirteenth
- Growing bipartisan support for PPP Bill
 - Potential PPP Forgiveness Modifications in HEROES Act H.R. 6800 Passed in House



Loan Forgiveness: \$2M vs. under \$2M

PPP LOAN FREQUENTLY ASKED QUESTIONS(FAQs) – LOANS OVER \$2M VS. UNDER \$2M

- **Question 31** – Do businesses owned by large companies with adequate sources of liquidity to support the business’s ongoing operations qualify for a PPP loan? (Published April 23, 2020)
 - Unlikely that a public company with substantial market value and access to capital market will be able to make the required certification.
 - Repay the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith.
- **Question 39** – Will SBA review individual PPP loan files? (Published April 29, 2020)
 - SBA to review all loans in excess of \$2 million.
- **Question 43** – Is it possible for a borrower to obtain an extension of the May 7, 2020 repayment date? (Published May 5, 2020)
 - SBA extending the repayment date to May 14, 2020.
- **Question 46** – How will SBA review borrowers required good-faith certification concerning the necessity of their loan request? (Published May 13, 2020)
 - PPP loans of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.
 - Safe harbor appropriate because borrowers below the threshold are generally less likely to have had access to adequate sources of liquidity.
 - Borrowers with loan greater than \$2 million may still have adequate basis for making the required good-faith certification, based on their individual circumstances in light of the language of the certification and SBA guidance.
 - If SBA determines in the course of its review that a borrower lacked an adequate basis, SBA will seek repayment of the outstanding PPP loan balance. IF borrower repays the loan, SBA will not pursue administrative enforcement or referrals to other agencies.
 - The thirteenth PPP Interim Final Rule published on May 20, 2020 refers FAQ 46 as to the safe harbor for loans of less than \$2 million.
- **Question 47** – Is it possible for a borrower to obtain an extension of the May 14, 2020 repayment date? (Published May 13, 2020)
 - SBA extending the repayment date to May 18, 2020.



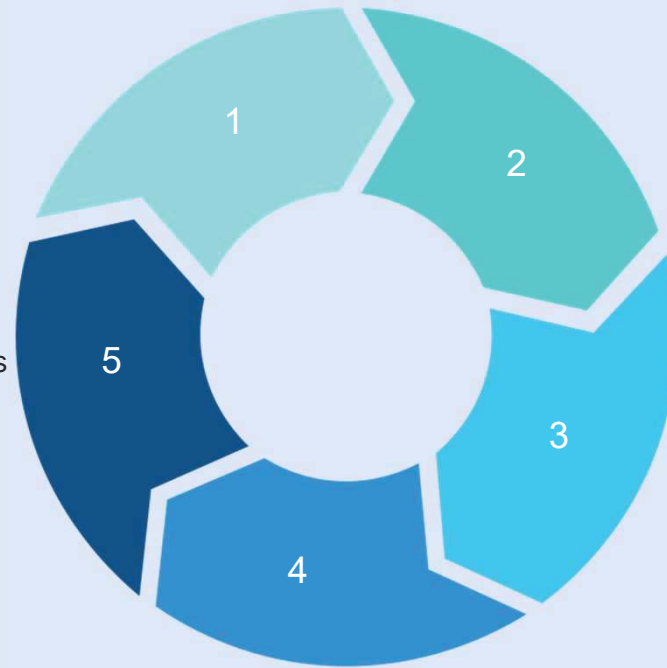
Forgiveness Steps: Loan Calculator



Step 1
Loan Amount

Step 2
Tentative Loan Forgiveness

Step 3
Forgiveness Reduction FTE



Step 4
Payroll Reduction

Step 5
Safe Harbor

Loan Forgiveness: Overview

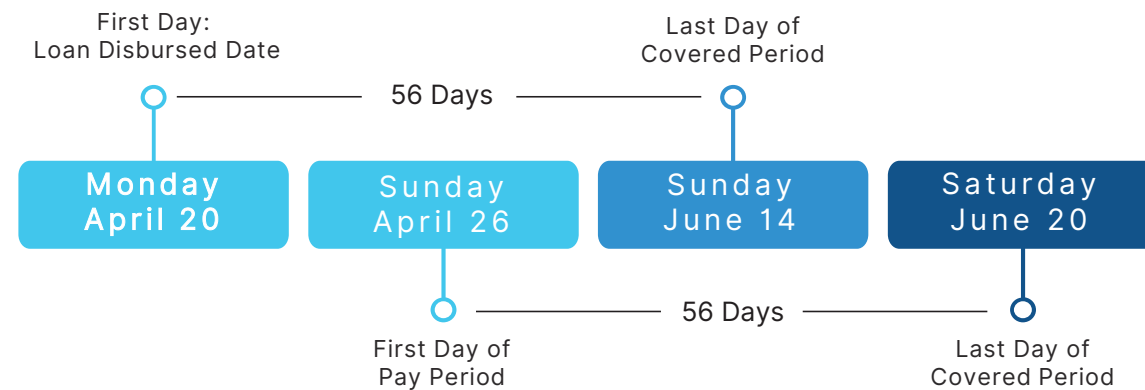


18	Maximum Eligible Loan Forgiveness Summary			Note: these numbers will populate as additional data is entered throughout the worksheet.
19				
20	Payroll costs	Line 1	124,425	From Schedule A tab
21	Business mortgage interest payments	Line 2	-	From Non-Payroll Costs Tracking tab
22	Business rent or lease payments	Line 3	100,000	From Non-Payroll Costs Tracking Tab
23	Business utility payments	Line 4	15,700	From Non-Payroll Costs Tracking tab
24				
25	Total eligible costs		240,125	
26	Add: Accrued Interest			See note 3 below
27				
28	Adjustments for FTE and Salary/Wage Reduction			
29				
30	Total salary/hourly wage reductions	Line 5	4,385	From Schedule A tab
31				
32	Subtotal	Line 6	235,740	
33				
34	FTE reduction quotient	Line 7	1	From Schedule A tab
35				
36	Modified total	Line 8	235,740	
37				
38	PPP Loan Amount	Line 9	200,000	
39				
40				
41	Payroll cost 75% requirement	Line 10	165,900	Line 1 payroll costs divided by .75
42				
43	Forgiveness amount (smallest of line 8, 9 and 10)	Line 11	165,900	
44				
45	EIDL Emergency Grant		10,000	See note 4 below
46				
47	Net amount of eligible loan forgiveness		155,900	Subject to documentation and other authoritative guidance
48				
49	Remaining loan balance after forgiveness		44,100	
50				



Loan Forgiveness: Covered Period

- **Covered Period:** The first day of the Covered Period must be the same as the PPP Loan Disbursement Date. The Covered Period is eight-weeks (56-days). **Ex.** Borrower received its PPP loan proceeds on Monday, April 20, the first day of the Covered Period is April 20 and the last day of the Covered Period is Sunday, June 14.
- **Alternative Payroll Covered Period:** Borrowers with a biweekly (or more frequent) payroll schedule may elect to use the eight-week (56-day) period beginning on the first day of their first pay period following their PPP Loan Disbursement Date (the "Alternative Payroll Covered Period"). **Ex.** Borrower received its PPP loan proceeds on Monday, April 20, and the first day of its first pay period following its PPP loan disbursement is Sunday, April 26, the first day of the Alternative Payroll Covered Period is April 26 and the last day of the Alternative Payroll Covered Period is Saturday, June 20.





Loan Forgiveness: Payroll Costs

Compensation Limit

- Cash compensation is capped at \$100,000 annual compensation (\$15,385 during the eight weeks covered period) per employee.

Cash Compensation

- Payroll costs are considered paid on the day that paychecks are distributed and considered incurred on the day that the employee's pay is earned. Payroll costs incurred but not paid during the Borrower's last pay period of the Covered Period or Alternative Payroll Covered Period are eligible for forgiveness if paid on or before the next regular payroll date. Otherwise, payroll costs must be paid during the Covered Period or Alternative Payroll Covered Period.

Non-cash Compensation

- Non-cash compensation payroll costs: employer contribution for employee health insurance and employer contributions to employee retirement plans.

Loan Forgiveness: Non-Payroll Costs



- **Non-payroll Costs:** the expenditures must be actual and reasonable use the 8/52 rule.
- Non-payroll costs (N-P costs) might be the easiest part of this whole process. N-P costs consist of Interest on secured loans, rent, Transportation which is widely understood as vehicle fuel, Electricity, Gas, Water, Phone, and internet.

- **Non-Payroll Costs Paid and Incurred**
- Must be paid during the 8-week covered period OR incurred during the 8-week covered period AND paid on or before the next regular billing date.
- The alternate Covered period does not apply to non-payroll costs.
- It appears that eligible N-P costs include those paid prior to the covered period but incurred during the covered period. Specifically, rent paid at the beginning of the month.
- The contract for the includable cost must have been in place on February 15, 2020. The lease must have been in effect on 2/15/20, Services for utilities must have begun before 2/15/20.
- Payments must be made in accordance with the lease agreement and incurred. Prepaid or late rent is not eligible as it was not incurred during the covered period.
- Interest (not principal) on mortgage obligations also includes interest secured by personal property such as equipment leases if the loan was incurred prior to 2/15/20.

Loan Forgiveness: Non-Payroll Costs



6	Green cells will carry over to other applicable worksheets													
7														
8	Purpose:													
9	To track non-payroll eligible expenses for the 8-week period following loan funding.													
10														
11	Notes on eligible non-payroll expenses:													
12	Only include expenses below that were in place under agreements that began before Feb. 15, 2020.													
13	Do not include payments for which you are not asking for forgiveness.													
14	Must be paid during the 8-week covered period OR incurred during the 8-week covered period AND paid on or before the next regular billing date.													
15	Note: The alternative covered period available for payroll costs DOES NOT apply for the costs you'll be tracking on this sheet.													
16	The total costs cannot exceed 25% of the total forgiveness amount. <i>This limitation will be applied in the "PPP Forgiveness Calculator" tab.</i>													
17														
18				Business mortgage interest on real or personal property (Do not include any prepayments)	Business rent or lease payments for real or personal property	Business Utility Payments						Total Business		
19	Week #	Week Start	Week End			Transportation	Electricity	Gas	Water	Phone	Internet	Other	Utility Payments	
20														
21	1	4/26/20	5/2/20		50,000						5,000		-	
22	2	5/3/20	5/9/20				350						5,350	
23	3	5/10/20	5/16/20							2,500			2,500	
24	4	5/17/20	5/23/20										-	
25	5	5/24/20	5/30/20										-	
26	6	5/31/20	6/6/20		50,000								-	
27	7	6/7/20	6/13/20				350				5,000		5,350	
28	8	6/14/20	6/20/20							2,500			2,500	
29														
30		Total			-	100,000	-	700	-	-	5,000	10,000	-	15,700
31														
32	NOTE: Some lenders are requiring that PPP loan proceeds be put into a separate bank account. When the application for loan forgiveness is completed, documentation such as payroll reports, payroll tax returns, canceled checks, receipts, account statements, lease agreement or other documentation of payment will be required. For additional details													
33	on documentation requirements for forgiveness, refer to the SBA forgiveness application released on May 15, 2020. Disbursing eligible costs from a separate account may													



Loan Forgiveness: Documentation

DOCUMENTATION THAT EACH BORROWER MUST SUBMIT WITH ITS PPP LOAN FORGIVENESS APPLICATION

- PPP Loan Forgiveness Calculation Form
- PPP Schedule A
- Payroll Documentation:
 - Bank Account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
 - Tax forms or equivalent third-party payroll service provider reports for the periods that overlap with the Covered Period or the Alternate Payroll Covered Period. (Form 941 and State quarterly reports).
 - Payment receipts, cancelled checks or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the borrower included in the forgiveness amount (PPP Schedule A, lines (6) and (7)).
- Full Time Equivalency (FTE)
 - Documentation of the average number of FTE which will be used to complete PPP Schedule A, line 11. (Borrower will elect which of the three periods to use for the calculation).
- Nonpayroll Expenses to complete PPP Loan Forgiveness Application lines 2,3 and 4
 - For lines 2 and 3 of the PPP Loan Forgiveness Application related to Business mortgage Interest Payments, Business Rent or Lease Payments, the documents will cover the period of February 2020 and the months from the Covered Period through one month after the end of the Covered Period.
 - For line 4 of the PPP Loan Forgiveness Application related to Business utility payments, the documents will cover the period of February 2020 and during the Covered Period through one month after the end of the Covered Period.
 - Business mortgage interest payments: lender amortization schedule and receipts or cancelled checks verifying eligible payments; or lender account statements verifying interest amounts and eligible payments.
 - Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments.
 - Business utility payments: Copy of invoices and receipts, cancelled checks or account statements verifying those eligible payments.

The borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full.



Loan Forgiveness: Forms from Payroll Provider

1. Copies of payroll tax reports filed with the IRS including Form 941 and state unemployment tax filing reports for the Covered Period or the Alternate Payroll Covered Period.
2. Copies of payroll reports for each pay period for the Covered Period or the Alternate Payroll Covered Period.
3. Documentation reflecting the health insurance premiums paid during the Covered Period or the Alternate Payroll Covered Period.
4. Documentation of all retirement plan funding during the Covered Period or the Alternate Payroll Covered Period.
5. Copies of all lease agreements for all real estate and tangible personal property plus proof of payment during the Covered Period or the Alternate Payroll Covered Period.
6. Copies of all statements of interest paid on debt obligations incurred prior to February 15, 2020 during the Covered Period or the Alternate Payroll Covered Period.
7. Documentation reflecting utilities paid during the Covered Period or the Alternate Payroll Covered Period.

Loan Forgiveness: 75% Rule



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Loan Forgiveness: Term Definitions

Full Time Equivalent (FTE)

Defined by the Government Accountability Office (GAO) as the number of total hours worked divided by the maximum number of compensable hours in a full-time schedule. Ex. If the normal schedule for a week is defined as 40 hours, then someone working 32 hours during that week represents $32/40 = 0.80$ FTE.

40-hour Workweek

For each employee, the Full Time Equivalent (FTE) standard is a 40-hour work week expressed in terms of a percentage, using 40 as the denominator, and round to the nearest tenth. The maximum for each employee is capped at 1.0.

Simplified Method

For full-time employees, the simplified method assigns a 1.0 FTE for employees who work 40 hours or more per week. For part-time employees, the simplified method assigns a 0.5 FTE for employees who work fewer than 40 hours per week.

Loan Forgiveness: FTE Reduction



- The PPP loan forgiveness amount is subject to a pro rata reduction based on a reduction in FTE's.

1

The actual loan forgiveness amount that the borrower receives may be reduced if the borrower's average number of FTE's during the covered period was less than during the borrower's chosen reference period.

2

The pro-rate reduction is based on the average monthly number of FTE during the covered period as compared to the average number of FTE during the borrower's reference period.

3

Example. Covered period FTE 80 / Reference period FTE 100 = a 20% reduction in loan forgiveness.

4

A safe harbor allows the borrower to eliminate the pro-rate reduction if they restore the FTE by June 30.

Loan Forgiveness: Good Faith Offers



➤ **SBA PPP FAQ Question 40** – Will a borrower’s PPP loan forgiveness amount (pursuant to section 1106 of the CARES Act and SBA’s implementing rules and guidance) be reduced if the borrower laid off an employee, offered to rehire the same employee, but the employee declined the offer? (Published May 3, 2020)

- No reduction of PPP loan forgiveness
- Borrower must have made a good faith, written offer of rehire, and the employee’s rejection of that offer must be documented by the borrower.



Loan Forgiveness: Salary / Hourly Wage Reduction



➤ The actual loan forgiveness amount that a borrower receives may be reduced if the borrower reduces employee pay by more than 25%.

1. Forgiveness is reduced dollar for dollar if an employee's total salary is reduced more than 25%.
2. The reference period is the 2020 first quarter salary – annualized.
3. The exact rules are quite complicated. However, all major payroll services will assist you to generate these reports.
4. The rule is applied to each individual employee, not to payroll in the aggregate.
5. The rule only applies to employees who did not receive annualized wages of more than \$100,000 during 2019.
6. A safe harbor provision protects borrowers who restore employee pay by June 30th.

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Contact Us

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