



10 Steps to Paycheck Protection Program Loan Forgiveness



WHAT IS THE EXACT CALCULATION FOR DETERMINING LOAN FORGIVENESS?

Step 1: Separate the categories of permitted uses of the Paycheck Protection Program Loan (PPPL) into the following:



- A. **Payroll Costs:** includes costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums; employee salaries, commissions, or similar compensations; state and local taxes
- B. **Non-Payroll Costs:** includes payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation); rent (including rent under a lease agreement); utilities; and interest on any other debt obligations that were incurred before the covered period.

Step 2: Calculate the total amount of your PPP loan spent in the 8-week period following disbursement of your loan for each category. If your payroll schedule is on a bi-weekly (or more frequent) basis, you may use an "Alternative Payroll Covered Period," which permits you to align the 8-week period (for payroll costs only) to your regular payroll schedule. The 8-week clock would begin on the first date of the first pay period following the day the loan was disbursed. For example, loan was disbursed on April 13, 2020, in the middle of a pay period. The first day of the next pay period is April 20, and the 8-weeks will begin running from April 20 for payroll costs.



Example 1 (Total Non-Payroll Costs exceed 25%)

Type of Cost	Expense	Amount
Payroll Cost	Wages	\$300,000
Payroll Cost	Health Care Premiums	\$10,000
Payroll Cost	State and Local Taxes	\$5,000
	Total Payroll Costs	\$315,000
Non Payroll Cost	Rent	\$90,000
Non Payroll Cost	Internet, Phone, Electric	\$2,000
Non Payroll Cost	Mortgage Interest	\$40,000
	Total Non-Payroll Costs	\$132,000

Example 2 (Total Non-Payroll Costs do not exceed 25%)

Type of Cost	Expense	Amount
Payroll Cost	Wages	\$300,000
Payroll Cost	Health Care Premiums	\$10,000
Payroll Cost	State and Local Taxes	\$5,000
	Total Payroll Costs	\$315,000
Non Payroll Cost	Rent	\$90,000
Non Payroll Cost	Internet, Phone, Electric	\$2,000
Non Payroll Cost	Mortgage Interest	\$10,000
	Total Non-Payroll Costs	\$102,000

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Step 3:



Add the total amount of Payroll Related Costs and Non-Payroll Related Costs (“Total PPP Spend”).

Example 1: Payroll Costs (\$315,000) + Non-Payroll Costs (\$132,000)
= **\$447,000 (Total PPP Spend)**

Example 2: Payroll Costs (\$315,000) + Non-Payroll Costs (\$102,000)
= **\$417,000 (Total PPP Spend)**

Step 4:



Multiply the Total PPP Spend by 25% to get the limit of the Total Potential Forgivable Non-Payroll Related Costs. Any monies spent on Non-Payroll Related Costs above and beyond the Total Potential Forgivable Non-Payroll Related Costs are not eligible for forgiveness.

Example 1: $\$447,000 \times .25 = \$111,750$ (Total Potential Forgivable Non-Payroll Related Costs)

Example 2: $\$417,000 \times .25 = \$104,250$ (Total Potential Forgivable Non-Payroll Related Costs)

Step 5:



Determine if the Non-Payroll Related Costs are greater than the Total Potential Forgivable Non-Payroll Related Costs. If so, then add the Payroll Related Costs and the Total Potential Forgivable Non-Payroll Related Costs to get the Total Potentially Eligible for PPP Loan Forgiveness. If not, then use the Total PPP Spend as the Total Potentially Eligible for PPP Loan Forgiveness.

Example 1: $\$315,000 + \$111,750 = \$426,750$ (Total Potentially Eligible for PPP Loan Forgiveness)

Example 2: Non-Payroll Costs (\$102,000) < Total Potential Forgivable Non-Payroll Related Costs (\$104,250) so **\$417,000 (Total Potentially Eligible for PPP Loan Forgiveness)**

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Step 6:



Determine if the total compensation received by any employee during the covered period has decreased by more than 25% from the average wages earned between January 1, 2020 to March 31, 2020 (Q1 2020).

The following salaries were reduced:

	Wage Rate of Last Full Quarter Prior to PPP Loan	Wage Rate During 8-week covered period	Amount of Reduction in Excess of 25% (as prorated during the 8-week period)
Employee A	\$90,000/yr	\$60,000	\$1,153
Employee B	\$60,000/yr	\$40,000	\$769.00
		Total Reductions Over 25%	\$1,922

Note: The wage reduction in excess of 25% is prorated over the 8 week period. Employees who earned an annualized salary of greater than \$100,000 for any period in the prior year are excluded from the 25% wage reduction. For example, if an employee earned more than \$3,846.25 before taxes in any pay period during 2019, the employee's compensation is excluded from the calculations in Step 6.

Step 7:



Reduce the number from Step 5 by the percentage decrease in salary beyond a 25% reduction obtained in Step 6 to obtain Total Eligible Forgiveness.

The following salaries were reduced:

Example 1: \$426,750 - \$1,922 = \$424,828 Total Eligible Forgiveness

Example 2: \$417,000 - \$1,922 = \$415,078 Total Eligible Forgiveness

Step 8:



Divide the average number of Full-Time Equivalent Employees (FTEEs) during the covered period by the average number of FTEEs during 2/15/19-6/30/19 or 1/1/20-2/29/20 (at your choice). Seasonal employers have a third option of using any consecutive 12-week period between May 1 and September 15, 2019. FTEEs are calculated on a weekly basis during the Covered Period or the Alternative Payroll Covered Period. For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. 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 hours may be used at the election of the Borrower

Average Monthly FTEEs during Covered Period or Alternative Covered Period: 40

Option 1: Average Monthly FTEEs during 2/15/19 – 6/30/19: 52

Option 2: Average Monthly FTEEs during 1/1/20 – 2/29/20: 48

Option 2 is the lowest FTEE count, so divide 40/48 = .8333

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Step 9:



Multiply the Total Potentially Eligible for PPP Loan Forgiveness by the percentage from Step 8.

Example 1: $\$424,828 \times .8333 = \$354,009.17$

Example 2: $\$415,078 \times .8333 = \$345,884.50$

Step 10:



Safe Harbor for Wage Reductions: To determine if the safe harbor applies to any wage reductions beyond 25%, first look at what the employee was earning as of February 15, 2020. Then determine what the employee earned on average from February 15 through April 26, 2020. If the amount the employee earned on average between February 15 and April 26, 2020 is less than what the employee earned as of February 15, 2020, you then look to the employee's average wage as of June 30, 2020. If the employee earned on average the same, or more on June 30, 2020 as what the employee earned as of February 15, 2020, the safe harbor applies. A salary reduction during the 8 week period will not count against PPP loan forgiveness, so long as that salary is restored by June 30, 2020.

Safe Harbor for FTE Reductions: To determine if the safe harbor applies to any reductions in FTEs, first to look to the number of FTEs for the pay period including February 15, 2020. Then determine the average FTEs from February 15, 2020 through April 26, 2020. If you had more FTEs on February 15, 2020 than the average FTEs between February 15, 2020 and April 26, 2020, so long as the you restore the FTE count to what is was as of February 15, 2020, the safe harbor is met and you avoid a reduction in forgiveness based on FTEs within the 8 week period.

Pat yourself on the back, but then double-check your work. Computing PPP Loan Forgiveness is an admittedly confusing process. If you need any help or assistance on PPP Loan issues, the [SBA Loan Task Force](#) at Fisher Phillips is available to help.

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