
TODAY'S TOPICS:

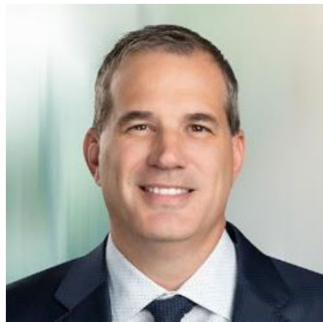
PPP LOAN FORGIVENESS APPLICATION



*The Next
Level of
Service*

AIAM

PPP LOAN FORGIVENESS APPLICATION



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STAGES IN THE PPP LOAN PROCESS

- Borrower applies for loan
- Lender/SBA approves loan
- Lender funds loan
- Borrower uses funds to pay expenses
- Borrower applies for loan forgiveness
- Borrower repays amount not forgiven



LOAN FORGIVENESS READINESS

- Understand important definitions in the Act and guidance
 - Covered Period
 - Alternative Covered Payroll Period
 - Full Time Equivalent employees
 - Full Time Equivalent measurement periods
 - Allowable Uses
 - Payroll Costs
 - Non-Payroll Costs
 - Reductions
 - FTE
 - Salary and wages
 - Safe Harbor Exemptions

DEFINITIONS

- **The Covered Period** related to the forgiveness of the loan is the 8 week period starting immediately after the loan has *been disbursed by lender (FAQ 20)*
- **Alternative Payroll Covered Period:** For administrative convenience, Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date (the “Alternative Payroll Covered Period”).

DEFINITIONS

- **Full Time Equivalent (FTE) employee** 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.
- **Full Time Equivalent Measurement Periods:**
 - February 15, 2019 to June 30, 2019
 - January 1, 2020 to February 29, 2020
 - Seasonal – Any consecutive 12 weeks from May 1 through September 15, 2019

DEFINITIONS CONTINUED: ALLOWABLE USES

Payroll Costs:

- Gross cash compensation earned/payable to employees
 - Hazard pay, bonuses, payments to furloughed employees qualify subject to the \$100,000 proration cap.
- Vacation, sick or other leave
- Dismissal or separation pay
- Health insurance costs (less employee reimbursement)
- Retirement plan contributions
- State and local unemployment taxes
- SE Income for partners/LLC members in a partnership

DEFINITIONS CONTINUED: ALLOWABLE USES

Payroll Costs (continued):

- **Self employed individuals:** Monthly average of line 31 of 2019 Schedule C net profit. Capped at \$15,385 for the covered period.
- **Owner-Employee / General Partners:** Capped at the lesser of (i) \$15,385 for the 8 week period or (ii) 2019 cash compensation including health insurance and retirement multiplied by 8/52. Cap is applicable on **all affiliated businesses**

PAYROLL COSTS (CONT.)

EXCLUDED FROM PAYROLL COSTS

- Compensation paid to employees whose principal residence is outside of the US
- Qualified sick leave pay for which a credit is allowed under Sec. 7001 of the FFCRA
- Qualified family leave pay for which a credit is allowed under Sec. 7003 of the FFCRA
- The employer portion of Federal employment taxes imposed or withheld under IRC chapters 21, 22, or 24 (FAQ #16 – US Treasury)
- Costs paid to independent contractors (FAQ 15)
- Cash compensation in excess of \$100,000 per employee excluded from forgiveness

DEFINITIONS CONTINUED: ALLOWABLE USES

Non Payroll Costs:

- **Interest on mortgages**
 - Includes real property and personal property
 - Prepayment of interest is **not** allowed
 - Excludes principal
- **Rent Payments**
 - Includes rents for real or personal property under lease agreements
 - Appears related party rents will be allowed
- **Utility payments**
 - Electricity, gas, water, telephone, internet access, and transportation (gray area).
- **Interest on any other indebtedness**
 - Will not be included in amount forgiven

No more than 25% of the amount forgiven can be attributable to non-payroll costs

DEFINITIONS CONTINUED: ALLOWABLE USES

Incurred v. Costs Paid:

Eligible payroll costs. Borrowers are generally eligible for forgiveness for the payroll costs paid or payroll costs incurred during the eight-week (56-day) Covered Period (or Alternative Payroll Covered Period) (“payroll costs”). 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.

Eligible nonpayroll cost. Cost must be paid during the Covered Period or the portion incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period.

EXAMPLE

Client name: Name

Loan Disbursement Date: 4/15/2020

Payroll Period Selected: Alternative Payroll Covered Period

Categories	Actual Week 1 Ending 4/21/2020	Actual Week 2 Ending 4/28/2020	Actual Week 3 Ending 5/5/2020	Actual Week 4 Ending 5/12/2020	Actual Week 5 Ending 5/19/2020	Actual Week 6 Ending 5/26/2020	Actual Week 7 Ending 6/2/2020	Actual Week 8 Ending 6/9/2020	Total	%
[1] Payroll Costs										
Gross Wages	12,450	12,450	12,450	12,450	12,450	12,450	12,450	12,450	\$ 99,600	
Health Insurance	5,000	-	-	5,000	-	-	-	-	10,000	
State Unemployment Taxes	150	-	-	150	-	-	-	-	300	
Employer retirement benefits (401k match / pension plan)	-	-	-	-	-	-	-	-	-	
Less (enter as negative):										
Qualified sick leave / qualified family leave	-	-	-	-	-	-	-	-	-	
Employees with principal residence outside of U.S	-	-	-	-	-	-	-	-	-	
100k Proration Cap on wages									(12,154)	
Subtotal Payroll Costs	17,600	12,450	12,450	17,600	12,450	12,450	12,450	12,450	97,746	81.76%
	Budget Week 1 Ending 4/21/2020	Budget Week 2 Ending 4/28/2020	Budget Week 3 Ending 5/5/2020	Budget Week 4 Ending 5/12/2020	Budget Week 5 Ending 5/19/2020	Budget Week 6 Ending 5/26/2020	Budget Week 7 Ending 6/2/2020	Budget Week 8 Ending 6/9/2020	Total	%
[2] Interest on mortgage obligation	-	-	-	-	-	-	-	-	-	
[3] Payments on covered rent obligation (real and personal)	-	-	7,500	-	-	-	-	7,500	15,000	
[4] Utilities										
Electricity	2,500	-	-	-	2,500	-	-	-	5,000	
Gas	500	-	-	-	500	-	-	-	1,000	
Water	-	150	-	-	-	150	-	-	300	
Transportation	-	-	-	-	-	-	-	-	-	
Telephone	-	-	150	-	-	-	150	-	300	
Internet Access	-	-	100	-	-	-	100	-	200	
Subtotal non-payroll costs	3,000	150	7,750	-	3,000	150	250	7,500	21,800	18.24%
[5] Total Eligible Expenses	\$ 20,600	\$ 12,600	\$ 20,200	\$ 17,600	\$ 15,450	\$ 12,600	\$ 12,700	\$ 19,950	\$ 119,546	100.00%

\$100,000 PRORATED COMPENSATION



CAVEAT: The following considers the proration for \$100,000 to be based on the full 8 week period rather than on the actual number of periods the employee was employed during such period. Additional guidance is required to understand whether the cap will need to be prorated down to account for the number of weeks that an employee was actually employed during the covered period.

Employee Name	More than 100k annualized salary in 2019 (Y or N)	Last Four Digits of SSN	Owner, self employed, general partner		Week 1	Week 8	Total	Allowable	Allowed Compensation	Excess
			Y or N	If yes, 2019 8 week equivalent	4/21/2020	6/9/2020				
king kong	Y	1234	N		2,500.00	2,500.00	20,000.00	15,384.62	15,384.62	(4,615.38)
Johnny carson	N	9800	N		1,500.00	1,500.00	12,000.00	15,384.62	12,000.00	-
PPP Wizard	N	7650	N		1,200.00	1,200.00	9,600.00	15,384.62	9,600.00	-
Peter Pan	N	9832	Y	13,076.92	2,500.00	2,500.00	20,000.00	13,076.92	13,076.92	(6,923.08)
Mr. T	N	1234	N		1,250.00	1,250.00	10,000.00	15,384.62	10,000.00	-
Rocky	N	8797	N		2,000.00	2,000.00	16,000.00	15,384.62	15,384.62	(615.38)
Lebron James	Y	2323	N		1,500.00	1,500.00	12,000.00	15,384.62	12,000.00	-
					-	-	-	15,384.62	-	-
					-	-	-	15,384.62	-	-

EXAMPLE – INTERIM FINAL RULES FOR LOAN FORGIVENESS

A borrower's covered period begins on June 1 and ends on July 26. The borrower pays its May and June electricity bill during the covered period and pays its July electricity bill on August 10, which is the next regular billing date. The borrower may seek loan forgiveness for its May and June electricity bills, because they were paid during the covered period. In addition, the borrower may seek loan forgiveness for the portion of its July electricity bill through July 26 (the end of the covered period), because it was incurred during the covered period and paid on the next regular billing date.

FORGIVENESS REDUCTION – NUMBER OF EMPLOYEES

- The amount qualified for forgiveness is reduced if the average number of FTEs during the covered period or alternative covered period is lower compared to one of the FTE measurement periods:
 - February 15, 2019 through June 30, 2019; or
 - January 1, 2020 through February 29, 2020

Note: Seasonal employers may use the above two periods or any consecutive 12 week period from May 1, 2019 through September 15, 2019
- FTE measurement period selected is based on the lower of the two periods (or three periods for seasonal)

FORGIVENESS REDUCTION – NUMBER OF EMPLOYEES

- Borrowers must calculate the **average number of hours paid for each employee**. Hourly Averages of 40 or more are considered full time and get at 1.0 equivalency.
- Employees who were paid for less than 40 hours per week, borrowers may choose to calculate the full-time equivalency in one of two ways.
 1. Calculate the average number of hours a part-time employee was paid per week during the covered period divide by 40 and use the quotient obtained.
 2. Borrowers may elect to use a full-time equivalency of 0.5 for each part-time employee.

FORGIVENESS REDUCTION – NUMBER OF EMPLOYEES

Reduction Exceptions:

The borrower may count such employee at the same full-time equivalency level before the FTE reduction event when calculating the section 1106(d)(2) FTE employee reduction penalty.

- fired for cause,
- voluntarily resigns, or
- voluntarily requests a reduced schedule during the covered period or the alternative payroll covered period
- Employees whom the borrower offered to rehire and the employee refused the offer to remain on unemployment provided that certain criteria is met.

FORGIVENESS REDUCTION – NUMBER OF EMPLOYEES

Unemployment Criteria:

- The borrower made a good faith, written offer to rehire such employee (or, if applicable, restore the reduced hours of such employee) during the covered period or the alternative payroll covered period;
- The offer was for the same salary or wages and same number of hours as earned by such employee in the last pay period prior to the separation or reduction in hours;
- The offer was rejected by such employee;
- The borrower has maintained records documenting the offer and its rejection; and
- The borrower informed the applicable state unemployment insurance office of such employee's rejected offer of reemployment within 30 days of the employee's rejection of the offer.

FORGIVENESS REDUCTION – NUMBER OF EMPLOYEES - EXAMPLE



Client name:

Loan Disbursement Date:

Covered Period: The eight-week (56-day) Covered Period of the PPP loan. The first day of the Covered Period must be the same as the PPP Loan Disbur

Alternative Payroll Covered Period: For administrative convenience, Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date (the "Alternative Payroll Covered Period").

	Covered Period	Alternative Payroll Covered Period	
Period Beginning Date	4/15/2020	4/21/2020	<== Manual Input
Period End Date	6/9/2020	6/15/2020	

Period Selected (Drop Down)

[1] Avg number of full time equivalent during covered period or alternative payroll covered period *From Payroll Record*

[2] the average number of full time equivalent employees per month employed by the eligible recipient during the period beginning on February 15, 2019 and ending on June 30, 2019; or *From Payroll Record*

[3] the average number of full time equivalent employees per month employed by the eligible recipient during the period beginning on January 1, 2020 and ending on February 29, 2020; *From Payroll Record*

Seasonal Y - Yes / N - No

[4] the average number of full time equivalent employees for any 12 consecutive weeks from May 1, 2019 through September 15, 2019 *From Payroll Record*

Use the lesser of [2] or [3], if seasonal lesser of [2], [3] or [4]

Ratio - Max 100%

FORGIVENESS REDUCTION – SALARY AND WAGES

- Gross wages paid to an employee in the covered period must not be reduced by more than 25% compared to the gross wages paid to that employee in the most recent full quarter prior to the covered period
- Any reduction in excess of the 25% will reduce the forgiveness amount dollar for dollar

Computation above is based on average salary or average hourly wage rate. Only applicable to employees whose annual salary was under \$100,000 during 2019.

FORGIVENESS REDUCTION – SALARY AND WAGES - EXAMPLE

Step 1

Employee Name	Type (H=Hourly / S=Salary)	1.(A) - Average Annual Salary or Hourly Wage Rate During Covered Period	1.(B) - Average Annual Salary or Hourly Wage Rate During Q1 2020	1.(C) - Divide 1.(A) by 1.(B)	Next Steps
Johnny carson	H	35.00	50.00	70%	Proceed to Safe Harbor ==>
PPP Wizard	S	50,000.00	75,000.00	67%	Proceed to Safe Harbor ==>
Mr. T	S	60,000.00	75,000.00	80%	No Further Testing Needed
Rocky	H	74.00	100.00	74%	Proceed to Safe Harbor ==>

Step 2 - Safe Harbor

2(a) - Hourly Wage Rate / Annual Salary at February 15, 2020	2(b) - Hourly Wage Rate / Annual Salary between February 15, 2020 and April 26, 2020	Next Steps	2(c) - Hourly Wage Rate / Annual Salary at June 30, 2020	Safe Harbor
50.00	35.00	Proceed to 2(c) ==>	50.00	Safe Harbor Met
75,000.00	80,000.00	Skip to Step 3 ==>		
100.00	99.00	Proceed to 2(c) ==>	99.00	Proceed to Step 3==>

Step 3

3.(A) - 1.(A) x 75%	3.(b) - Subtract 1.(A) from 3.(A)	3.(C) - Average Weekly Hours in Q1 - HOURLY ONLY	Reduction
\$ 56,250	6,250.00	-	962.00
\$ 75	1.00	40.00	320.00

SAFE HARBOR EXEMPTIONS

- The two forgiveness reductions will be exempted if the following qualifications are met:
 - Re-hire employees laid off or fired in the period from February 15, 2020 to April 26, 2020 to a level equal to or higher than FTE count on February 15, 2020 – this would apply to the “FTE reduction” only
 - Restore salaries of employees reduced in the period from February 15, 2020 to April 26, 2020 to a level equal to or higher than FTE count on February 15, 2020 – this would apply to the “FTE reduction” only – this would apply to the salary reduction only
- Each requirement must to be met not later to June 30, 2020 for the corresponding reduction not to apply. All or nothing.

FORGIVENESS REDUCTION – SUMMARY

<u>Safe Harbor:</u>		
Number of FTE at February 15, 2020		9
Average FTE between February 15, 2020 and April 26, 2020		6
Number of FTE at June 30, 2020		7
Safe Harbor Applicable - Y / N		N
[5] Loan Amount	<input style="width: 50px; height: 20px;" type="text"/>	\$ 124,500
Allowed Qualified Expenses		119,546
1) Reduction relating to salary and wages		(1,282)
Subtotal Qualified Expenses		118,264
2) Reduction in number of employees		(26,018)
[6] Net Allowed Expenses		\$ 92,246
[7] Payroll Costs divided by .75		\$ 130,328
Maximum forgiveness amount - Lesser of [5], [6] and [7]		\$ 92,246
<i>Loan Balance after forgiveness</i>		<i>\$ 32,254</i>

ETERNAL (FEELS LIKE) QUESTIONS

Many unanswered questions:

- What qualifies as a utility (transportation costs???)
- Definition of owner-employee
- FTE reduction – is the weekly average based on 8 week covered period (or alternative covered period) or based on payroll records used for the payroll cost
- Are LLC members considered General Partners for the cap purposes?
- \$15,385 cap for employees who did not work the full covered period
- Safe Harbor – Are employees required to remain employed through June 30th if safe harbor is reached prior to that date?
- In light of many “stay-at-home” orders, will the 8-week period be extended?

FINAL THOUGHTS (UNTIL RULES CHANGE) ON FORGIVENESS

- Establish a separate bank account
- Prepare an 8-week forecast showing uses of proceeds
 - Identify in advance recurring expenses which qualify for forgiveness
- Calculate FTE's during the applicable "measurement" periods
- Calculate payroll for employees during the most recent full quarter
- Estimate your FTE and payroll reductions
- Document all expenses!
 - Complete a spreadsheet that tracks and summarizes all qualified expenditures
 - Accumulate copies of all qualified invoices, cancelled checks, bank statements, etc.

ONE LAST FORGIVENESS CONSIDERATION!

Tax Implications

- Amount forgiven is excluded from taxable income
- Expenses paid for by forgiven funds are not deductible

CARES ACT – INTERACTION WITH TAX PROVISIONS



- Employer Retention Credit
 - Encourages companies that have been negatively impacted to retain employees by providing credit for wages paid to employees that have been retained
- Delay of Employer Payroll Taxes
 - Employer portion of FICA taxes (until December 31, 2020) are not required to be deposited until December 31, 2021 and December 31, 2022 (50% on each date)
 - Deferral is available only until the loan forgiveness occurs

HOW UHY CAN HELP

In addition to providing assistance with reviewing loan forgiveness documentation and compliance with Cares ACT for lender submission, UHY's team can assist in evaluating strategic alternatives and capital structure issues during this period of economic turmoil.



CASH FLOW FORECASTING

- Detailed financial modeling and forecasting
 - 13-week cash flow forecasting
 - Covenant analysis and forecasting
 - Sensitivity & scenario analyses
- Managing liquidity
- Lender support and transparent dialogue



BALANCE SHEET RESTRUCTURING

- Existing lender negotiations
- Working Capital analysis and optimization
 - Vendor negotiation / strategy
- Refinance existing lenders or source additional junior capital or non-bank lenders



EXPEDITED M&A PROCESSES

- Accelerate M&A transaction processes (1 – 4 months)
 - Develop transaction strategy, prepare marketing materials, negotiate with buyers, and close
- Marketing to Special Situation Investors in addition to other financial and strategic buyers

SELL-SIDE ADVISORY • BUY-SIDE ADVISORY • FINANCIAL PLANNING & ANALYSIS • CAPITAL RAISING

Our team of experts have developed key strategies and considerations to assist companies in weathering these uncertain times to emerge stronger and better positioned.

THANK YOU!

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Also check out our COVID-19 Resource Center:

www.uhy-us.com