

Seeking Forgiveness: Planning Your PPP Forgiveness Application



August 19, 2020



Benjamin Ford

bford@verrill-law.com

Gregory Fryer

gryer@verrill-law.com

PPP Loans in Maine

PPP Loans to New England States – approved through 6/20/20

	<u># Loans</u>	<u>Total \$\$ Loans</u>	<u>Avg \$\$/Loan</u>	<u>Population</u>	<u>#/100</u>	<u>\$\$/100</u>
ME	26,400	\$2,228,185,817	\$84,401	1,345,790	1.96	\$165,567
NH	23,011	\$2,523,897,886	\$109,682	1,371,246	1.68	\$184,059
VT	11,473	\$1,176,053,186	\$102,506	628,061	1.83	\$187,251
MA	108,925	\$14,199,057,483	\$130,356	6,976,597	1.56	\$203,524
RI	16,620	\$1,865,533,955	\$112,246	1,056,161	1.57	\$176,633
CT	58,257	\$6,628,795,320	\$113,785	3,563,077	1.64	\$186,041
NE Total	244,686	\$28,621,523,647	\$116,972	14,940,932		
NE Average					1.64	\$191,565

LOAN FORGIVENESS: THREE BASIC QUESTIONS

To oversimplify:

- Did you spend the entire loan amount?
- Is your average FTE headcount lower than the first half of 2019?
- Have you reduced your employees' salary/wage rates?

More precisely:

- Did you incur sufficient covered costs during your Covered Period?
- To what extent is your average FTE headcount during your Covered Period lower than your average FTE headcount during your Comparator Period?
- During your Covered Period, by what amount (in dollars) did salary/wage rates of your covered employees fail to reach at least 75% of their salary/wage rates in Q1 2020?

LOAN FORGIVENESS: KEY CONCEPTS

Covered Period

- Starts on PPP funding date
- Ends 24 weeks later (October'ish)
 - If your loan funded before June 5, you can elect the original 8-week period (June'ish)
- If you fund payroll weekly or biweekly, you can adopt an Alternative Covered Period for *just* “payroll costs” – allows you to line up better with your normal payroll periods

LOAN FORGIVENESS: KEY CONCEPTS

Average FTE Headcount

- For each hourly wage earner:

$$\text{Hours Paid per Pay Period} \div \text{Days in Period} \times 7 \div 40$$

round to the nearest 0.1 - can't be more than 1.0 even if she regularly works overtime

- Shortcut Method: every employee who works 40+ hours per week counts as 1.0; every employee who works fewer than 40 hours per week counts as 0.5
 - Typically a lower number, but lower *too* for the Comparator Period

LOAN FORGIVENESS: KEY CONCEPTS

Salary/Wage Reduction

- If you reduce employee pay by cutting their hours, that is an FTE issue
- If you reduce employee pay by cutting their rate of pay to less than 75% of their average Q1 2020 rate, you must track and add up the total dollar deficit below 75% for the entire Covered Period
 - In the case of an employee who often works overtime but who has variable hours, this can be an especially intricate calculation
 - If your payroll company offers a special PPP payroll report, start there – this could save you a lot of time and effort

Scenario #1: So far so good

- Payroll costs exceed 60% of total loan amount
- Remaining amount of loan spent on covered rent, utilities, and mortgage interest
- No drop in FTEs since January-February
- No major drop in salaries/wages
- Some owners and executives have salaries exceeding \$100,000 per year

Scenario #2: Almost out of the woods

- No wage/salary cuts except for higher-paid executives whose salaries in 2019 exceeded \$100,000
- But steep cuts in FTE headcount during March - May
- As a result, payroll costs over 8 weeks were under 60% of loan amount
- But business is better now, headcount has almost recovered, and payroll costs now exceed 60% of loan amount
- Remainder of loan amount spent on covered rent, utilities, and mortgage interest

Scenario #3: Shared sacrificed

- No layoffs, but 33% cuts in wages and salaries in March/April across the board - several employees quit in response
- Payroll costs did not meet the 60% level in the 8 weeks
- Business is now improving but “iffy”
 - On August 1, restored wages/salaries to February 15 levels
 - Two employees who quit were rehired; some of the departed employees have been replaced
 - But headcount is still down somewhat compared to February 15 and 2019

QUESTIONS?

Benjamin Ford

bford@verrill-law.com

Gregory Fryer

gfryer@verrill-law.com