

# PAYCHECK PROTECTION PROGRAM

*Understanding the Basics of Loan Forgiveness*



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FARM CREDIT EAST



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# PAYCHECK PROTECTION PROGRAM OVERVIEW

**Goal:** Keep employees **PAID** during the COVID-19 shutdowns

Small businesses (including self-employed individuals) applied for PPP loans to cover eligible payroll, interest, rent, and utility expenses

**IF** your loan was approved by SBA, and you spend

- ✓ the right amount of PPP funds
- ✓ on the right expenses
- ✓ in the right time period

you can apply to have the loan forgiven (or partially forgiven)



# BIG PICTURE FOR FARM CREDIT EAST

- Borrowers will compile documentation to support their application
- Borrowers will complete their application AFTER their covered period is complete
- Borrowers will need to submit the package to their PPP lender
- Lender submits package to SBA for forgiveness

## Resources

Webinars for customers: [FarmCreditEast.com/Webinars](https://FarmCreditEast.com/Webinars)

- *Forgiveness Basics*: May 21 & May 22
- *Q&A office hours*: beginning May 27
- *Compiling documentation and completing the application*: TBD (likely early July)



# FORGIVENESS – THE FIRST PASS

It is the **borrower's responsibility** to complete and submit the form to the lender

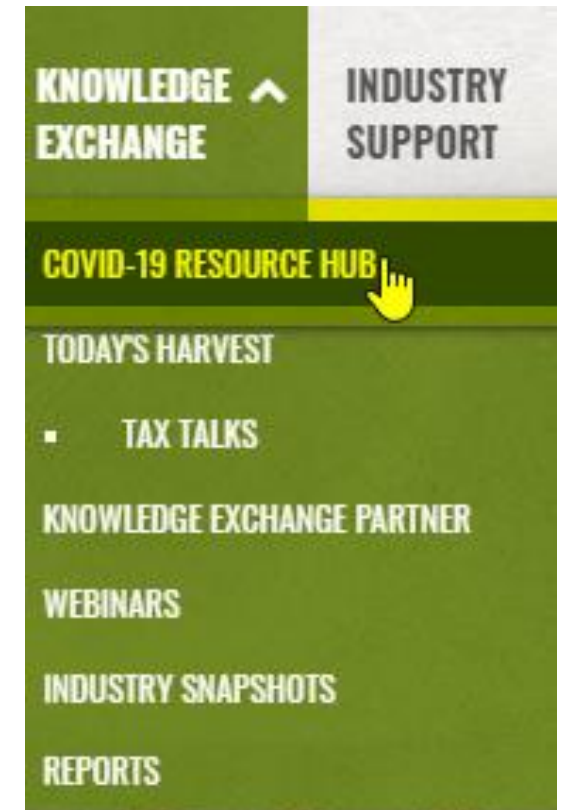
- Check with your lender for specific requirements
- We will share the Kabbage process once they share it with us

Forgiveness is **not automatic**.

## Want a head start?

The Loan Forgiveness Application is available from SBA.gov; find it on [Farmcrediteast.com/ResourceHub](https://farmcrediteast.com/ResourceHub)

**We do expect more guidance from SBA!**



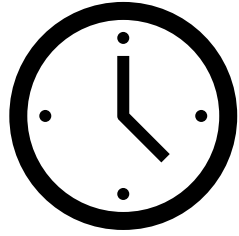


# PPP STARTS AS A **LOAN**

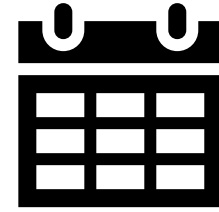
- Payments are automatically deferred for 6 months from the date of disbursement
  - You can request an additional 6-month deferment if needed
- **IF** you follow the correct procedures, you can apply for forgiveness
  - spend the money on the approved expenses
    - eligible payroll, rent, interest, and utilities
  - Spend the right amounts (at least 75% on payroll to achieve full forgiveness)
  - Spend in the right time period (8 weeks starting the day you received PPP funds)
- Forgiveness is not all or nothing, it appears to be proportional
- Amounts not forgiven will be repaid over a 2-year term at 1% interest



# TIMING



The clock starts on the **date you received your PPP funds.**  
**Mark your calendar!**



- The 8 weeks starting on this date is known as your **covered period**
- You need to complete your 8 weeks (**covered period**) *before* you can apply for forgiveness
- You **don't need to rush**, but **don't put it off** until the last minute
  - The first loan payment is due 6 months after receiving your PPP funds
  - Plan to apply for forgiveness starting 3 months after you get your PPP funds





# BASICS – THE COVERED PERIOD

- This is the amount of time in which you have to spend your PPP funds to qualify for forgiveness
- It starts the day you got your PPP loan funds
- Runs for 8 weeks (56 days)
  - If it started on a Friday, it ends on a Thursday

*Yikes!* How do you handle payroll with this?



# ALTERNATIVE PAYROLL COVERED PERIOD (APCP)

- Also 8 weeks (56 days)
- Starts the first day of the pay period immediately following the disbursement date
  - Ask: What day did you get the PPP funds? Use the first day of the next pay period as the start of your APCP*
- Must pay *biweekly or more frequently* to be eligible for the alternative payroll covered period
- If you use the APCP for payroll, you must use it for all payroll calculations in your application (FTEs, etc.) unless it says **COVERED PERIOD** only.
- If you use the APCP, you must pay the last pay run by its normal pay date



# WHAT COSTS COUNT TOWARD FORGIVENESS?

## Payroll

- Gross wages to U.S. resident employees
- Max \$15,385 per employee in this time period
- **Employer** share of
  - Health care benefits
  - Retirement benefits
  - State and local payroll taxes

## Notice

- **Employer** share of Social Security (FICA) and Medicare don't count, nor do FUTA or worker's comp
- Neither do withholdings (already included in gross wages)

*Sound familiar? It's the same payroll expenses used to calculate loan eligibility*

**PAID AND INCURRED** - No prepayments



# PAYROLL COSTS **PAID** AND PAYROLL COSTS **INCURRED**

**Paid:** On date paychecks are distributed OR the ACH is originated

**Incurred:** On the date earned

**Incurred but not paid** during CP/APCP are eligible **IF** paid on or before next regular payroll date

- Must allocate the incurred/earned portion that was within the CP/APCP

**Paid but not incurred?** *Seems acceptable, but further guidance may change this interpretation*





# ELIGIBLE FOR FORGIVENESS – SELF-EMPLOYMENT

If you are a self-employed individual, your ‘paycheck’ was calculated based on your 2019 tax return that was submitted with your application

**Sole proprietors:** Sch F or Sch C profit

A sole proprietorship has one owner, even if the owner is married

**Partners:** Box 14A of your K-1

**LLCs:** Use your applicable tax filing status above

**Corporations:** Owners’ pay was already included as salary/wages - there is no additional self-employment income

For sole proprietors/partners, the amount eligible for forgiveness based on your earnings (separate from payroll)

- is 8/52 of the amount calculated above
- limited to \$15,385 per owner/partner



# ELIGIBLE FOR FORGIVENESS – OWNERS

- Owner-employees (for corporations)
- Self-employed individuals (sole proprietorships)
- Partners

You need to report your earnings on a separate line from that of your employees

- Your wages/self-employment earnings count toward payroll costs as described earlier
- Your hours will not count toward FTE calculations

***IF** you applied for your PPP loan with a draft 2019 Sch C/F/K-1, make sure the one you file with the IRS matches your draft.*



# WHAT ABOUT H2A/H2B/J1?

- SBA guidance does not mention temporary workers
- Guidance points to the IRS residency test used to determine which state you pay income taxes to (not which country)
- With no official word, it is unlikely banks will expand the acceptable expenses
- **PLAN** your PPP spending and forgiveness application without guest worker wages



# ELIGIBLE COSTS – NON-PAYROLL EXPENSES

- **Paid** during your COVERED Period (no APCP)
- **Incurred** during your COVERED Period (no APCP) **AND paid** on or before the next regular billing date
  - Amounts incurred can count even if the billing date is after the end of your covered period  
*Quarterly interest payments? PART could count if you pay it on time*
- **These obligations must have:**
  - been in place before Feb 15, 2020
  - written documentation
- **NO Prepayments**
- **“New York Times Test”**





# ELIGIBLE COSTS – COVERED MORTGAGE OBLIGATIONS

- Business mortgage **interest (no principal)**
  - payments during COVERED period only (no APCP)
- **or**
  - Incurred during COVERED Period and paid as scheduled
- On real or personal property
- Loans with collateral
  - Credit cards? *NO*
  - Operating loans? *What's the collateral?*
- **These obligations must have:**
  - been in place before Feb 15, 2020
  - written documentation
- **NO prepayments**



# ELIGIBLE COSTS – RENT

- Business **rent** or **lease payments**

- On real or personal property
- Paid during COVERED Period (no APCP)
- Incurred during COVERED Period (no APCP) AND paid as scheduled (EVEN IF the billing date is after the end of the covered period)

Rent normally paid in November in arrears?

2/12 of annual rent will be incurred during your covered period, so it could be paid and counted.

- **These obligations must have** been in place before Feb 15, 2020 and have written documentation.
- **NO Prepayments**
- **“New York Times Test”** – related parties especially



# ELIGIBLE COSTS – UTILITIES

- Business utility **payments**
  - Distribution of electricity
  - Gas
  - Water
  - Transportation
  - Telephone       **or**
  - Internet access
- Paid during COVERED Period (no APCP)
- Incurred during COVERED Period (no APCP) AND paid on or before the next regular billing date (EVEN IF the billing date is after the end of the covered period)
- **These services must have**
  - been in place before Feb 15, 2020 and
  - written documentation.
- **NO Prepayments**



# ELIGIBLE NON-PAYROLL COSTS RECAP

Mortgage interest, rent and utilities, as described:

- Are eligible uses of PPP funds
- Only count during Covered period (APCP does not apply)
- Must be paid **or** incurred *and* paid on schedule
- Must have been in place prior to Feb 15, 2020
- Must have written arrangements/documentation
- Are NOT eligible for more than 25% of forgiveness





# SO...HOW DO YOU FIGURE THE FORGIVABLE AMOUNTS?

Step 1: Figure Eligible Costs

Step 2: Adjust for Reductions – use PPP Schedule A Worksheet

- Wage/salary reductions
- Full-time equivalent reductions
- EIDL advance - SBA will automatically reduce your PPP forgivable amount by the amount of the advance (advances were up to \$10,000)
- Overall amount spent on eligible payroll costs

Step 3: Complete the form with the math



# FORGIVENESS REDUCTIONS – PAY REDUCTION

For each employee

- Earning an annualized rate of less than or equal to \$100,000 for all pay periods in 2019\*
- OR**
- Who did not work for you in 2019

You'll need to figure average wage/salary rate

- From 1/1-3/31
- On Feb 15 (pay period including this date)
- 2/15-4/26
- During you Covered Period (or APCP)
- On June 30 (pay period including this date)

Yeah, we know.

*\*1,923/week?*



# FORGIVENESS REDUCTIONS – PAY REDUCTION

For each employee, if pay is reduced by 25% or more when comparing the average pay for

- Jan 1, 2020-March 31, 2020 to your Covered period/APCP
- and**
- It was not reinstated by June 30, 2020

your forgiveness will be reduced by a comparable percentage.

**Bottom line:** Use the PPP money to keep your employees paid!



# SAFE HARBOR – PAY LEVELS

Maintain pay levels in place since January 1

(technically > 75% of what they were before 3/31/20)

**or**

Restore to pre-3/31 salary or wage level by June 30

**CAUTION:** If you

- raised wages between 2/15 and 4/26
- and then reduced after you got PPP funds,

the 6/30 safe harbor does not apply (must reinstate to 100% of new rate)





# FORGIVENESS REDUCTIONS – FULL-TIME EQUIVALENTS

- Choose your reference period
  - Feb 15, 2019-June 30, 2019
  - Jan 1, 2020 – Feb 29, 2020
  - **IF** you applied as a seasonal employer, either of these **OR** a consecutive 12-week period between May 1 and Sept 15, 2019

*HINT: Choose the one with the fewest FTEs*

- Calculate average **full-time equivalents** (FTEs) for
  - Your chosen reference period
  - Your covered period / APCP



# CALCULATING FULL-TIME EQUIVALENTS

## List

- each employee
- the hours they worked for the time period you chose

Divide hours by 40 (and round to nearest 10<sup>th</sup>)

## That is your FTE count

- Must be capped at 1 for each employee
- Overtime does not increase FTE count



# SAFE HARBOR – FTE REDUCTION

If you

- Reduced FTEs between Feb 15 and April 26, 2020
- and**
- Restored FTEs to Feb 15 pay period level by June 30, 2020

then your forgiveness will not be reduced due to FTE reductions.

If you don't meet the safe harbor, the reduction is proportional based on the decrease in FTEs.

**Note: FTE count is not related to the employee count on your application.**



# WHAT IF IT WAS THE EMPLOYEES' IDEA?

## FTE Reduction Exceptions – **document, document, document:**

- Rejection of job (after good-faith written offer to rehire)
- Firing for cause
- Voluntary resignations
- Voluntary request for reduction of hours (must be in writing)

## Any FTE reductions in these cases

- do not reduce the Borrower's loan forgiveness
- do not need to be reported if positions are filled by a new employee
- need to be documented in writing



# FORGIVENESS AMOUNT

## **Maximum forgiveness considers payroll costs FIRST**

- Remember the 75% threshold?
- Calculate it this way:

$$\text{Eligible Payroll Costs} \div 0.75 = \text{Maximum forgivable amount}$$

The more you spend on payroll, the more of the other expenses you can potentially have forgiven

Spending more than 25% of the loan amount on interest, rent and utilities does not get you more forgiveness

If you don't spend 75% of the loan amount on payroll, you won't get the full 25% of non-payroll costs forgiven either





# DOCUMENTATION

**Documentation must be more than your own internal records.**

Provide documentation from or acknowledged through a third-party:

- invoices and receipts (bills and payments)
- cancelled checks
- account statements



**ProTip:** start a 'PPP Forgiveness' file and include all appropriate documents as they come across your desk/email

**Documentation must be retained for 6 years after the loan is forgiven or repaid in full.**



# DOCUMENTATION – PAYROLL DOLLARS

- Bank account statements OR third-party payroll service provider reports
- Tax forms OR equivalent third-party payroll provider reports for periods that overlap the covered period OR alternative payroll covered period

Payroll tax filings reported (or that will be reported) to IRS on 941

*What about 943s? Stay tuned!*

**And**

State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state

- Payment receipts, cancelled checks, or account statements for EmployER contributions to
  - Employee health insurance plans
  - Employee retirement plans

**Note: Internal records will not suffice**



# DOCUMENTATION – PAYROLL FTES

- Average number of FTEs from Feb 15, 2019-June 30, 2019
- Average number of FTEs from Jan 1, 2020- Feb 29, 2020
- Seasonal: either of the above OR any consecutive 12 weeks between May 1 and Sept 15, 2019
- Documents **MAY** include:
  - Payroll tax filings reported, or that will be reported, to the IRS (941)
  - and**
  - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.

*What about 943s? Stay tuned!*



But I file a 943 and am not subject to unemployment...

## **We know!**

- SBA generally doesn't work with farmers (that's USDA's job) so there is a learning curve
- It took a while for the Sch F/943s to be accepted for eligibility, but it did happen
- Patience and persistence pay off



# REQUIRED PAYROLL RECORDS TO KEEP

List of employees who:

- were on payroll during the covered period (or alternative covered period)
- reside in the U.S.

## Table 1

Employees whose **total cash compensation** (including bonuses) was **less than \$1,923.07/week** (or \$3,846.15 bi-weekly) *for every pay period in 2019*

**OR**

Employees who were **not on your payroll in 2019**

## Table 2

Employees whose **total cash compensation** (including bonuses) was **more than \$1,923.07/week** (or \$3,846.15 bi-weekly) *for any pay period in 2019*

**(These employees aren't subject to the 25% wage reduction test)**

So...bonuses late in 2019 don't hurt you for average compensation calculations

If there is more than one owner of the business, you need to complete a third table of owners.





# REQUIRED PAYROLL RECORDS TO KEEP

## For each table

- Employee name
- Employee identifier (last 4 of SSN)
- Cash compensation
- Average FTE
- Salary/hourly wage reduction (Table 1 only)

Compare covered period (or alternate covered payroll period)

vs.

Jan 1 – March 31, 2020



# DOCUMENTATION – RENT AND INTEREST

## Rent or lease

- Written lease agreement and cancelled checks or receipts
- or**
- Lessor account statements for Feb 2020 and your covered period + 1 month

## Mortgage interest

- Lender amortization schedule and receipts or cancelled checks
- or**
- Lender account statements for Feb 2020 and your covered period + 1 month



# DOCUMENTATION – UTILITIES

- Copy of invoices from February 2020 and during the covered period  
**AND**
- receipts, cancelled checks, or account statements
- Eligible business utility payments
  - Distribution of electricity
  - Gas
  - Water
  - Transportation
  - Telephone                      **or**
  - Internet access



# SO WHAT'S NEXT?



## Mark your calendars with

- YOUR covered period (8 weeks starting the date PPP funds received)  
**and** your alternative payroll period if you choose to use it
- PPP funding date + 1 month: mid-period review of expenses to date
- PPP funding date + 7 weeks:
- PPP funding date + 3 months to complete your application  
(you will not have the documentation to complete your application on day 57)



## Start your documentation **file**



## Begin collecting documentation



## Attend Farm Credit East PPP office hours with your questions

- Weekly plan for Wednesday mornings from 9-10 am
- Visit [FarmCreditEast.com/webinar](https://FarmCreditEast.com/webinar)







## QUESTIONS? MORE TO COME!

- Ag-specific questions (943s)
- Sole proprietor questions (health insurance/retirement contributions)
- Filling out the forms



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# KNOWLEDGE EXCHANGE

## UPCOMING WEBINARS

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Wednesday, May 27

### **COVID-19 Impact and Outlook for the U.S. and Northeast General Economy**

Dr. Ed Seifried, Professor Emeritus of Economics and Business at Lafayette College in Easton, PA



Thursday, June 4

### **USDA COVID-19 Relief Programs and Impacts to the US Food System**

John Newton, Chief Economist at American Farm Bureau Federation

### ***Coming Soon***

Registration will be posted: [FarmCreditEast.com/webinars](https://FarmCreditEast.com/webinars)

Thursday, June 11

### **Feed & Grain Markets and Dairy Outlook**

Thursday, June 18

### **U.S. and Northeast Animal Protein Market Outlook**