

# PPP Loan Forgiveness

As of April 28, 2020



# PPP Loan Forgiveness Illustrative Example (1/2)

## The scenario

- Loan amount: **\$100,000**
- Avg. monthly payroll: \$40,000
- Business grew in employees over the last year from 10 to 11 employees, but, after COVID-19, implemented temporary furloughs for 5 FTEs, leaving it with 6 FTEs
- The new avg. monthly payroll with 6 FTEs is \$30,000 (**\$60,000 over 8 weeks**)
- While it also implemented some reduction in salaries, **it did not decrease non-furloughed FTEs by more than 25%**

- **Determine the average number of Full Time Equivalents (FTEs)** for three time periods

**a** 8 week period after loan funding: **6**

**b** Feb 15 – June 30, 2019: **10**

**c** Jan 1 – Feb 29, 2020: **11**

*NOTE: If seasonal employer, only do (a) and (b)*

- Businesses are given an option between (b) and (c) above. It is recommended to choose the smaller figure to maximize forgiveness

## Part 1: Determine the maximum loan forgiveness

- Ideally, the business would like to get its entire \$100,000 loan forgiven
- Loan forgiveness is reduced based on two factors:
  1. Proportionally based on FTEs; less
  2. On a dollar for dollar basis for any reduction in wages exceeding a 25% reduction for those who made \$100,000 or less pro-rated
- Figures in (1) and (2) causing reductions in loan forgiveness can be eliminated by rehiring employees/restoring wages **by June 30, 2020**

1. Based on the figures to the *left*

$$\frac{\text{a}}{\text{Lesser of b or c}} \times \text{Loan Amount}$$

$$\frac{6}{\text{Lesser of (10, 11)}} \times \$100,000 = \$60,000$$

2. \$0 in reductions exceeding 25%

**i** Max loan forgiveness if no one is rehired by June 30, 2020, then (a) remains at 6:  
\$60,000 - \$0 = **\$60,000**

**ii** If 2 FTEs are re-hired by June 30, then (a) would become 8, allowing \$80,000

**iii** If 4 or 5 FTEs are re-hired, then (a) would become 10 or 11, allowing \$100,000

# PPP Loan Forgiveness Illustrative Example (2/2)

## The scenario

- Loan amount: **\$100,000**
  - Avg. monthly **payroll: \$40,000**
  - Business grew in employees over the last year from 10 to 11 employees, but, after COVID-19, implemented temporary furloughs for 5 FTEs, leaving it with 6 FTEs
  - The new avg. monthly payroll with 6 FTEs is \$30,000 (**\$60,000 over 8 weeks**)
  - While it also implemented some reduction in salaries, **it did not decrease non-furloughed FTEs by more than 25%**
  - **Determine the average number of Full Time Equivalents (FTEs)** for three time periods
    - a) 8 week period after loan funding: **6**
    - b) Feb 15 – June 30, 2019: **10**
    - c) Jan 1 – Feb 29, 2020: **11**
- NOTE: If seasonal employer, only do (a) and (b)*
- Businesses are given an option between (b) and (c) above. It is recommended to choose the smaller figure to maximize forgiveness

## Part 2: Determine if payroll is 75% or more of loan forgiveness amount

- Regardless of the calculation in Part 1, 75% of whatever is forgiven must be used for payroll expenses

$$\frac{\text{Payroll}}{0.75} = \text{Total Allowable Forgiveness}$$

$$\frac{\$60,000}{0.75} = \$80,000$$

- Based on the three scenarios on the previous page:

i	ii	iii
<b>\$60,000 max forgiveness</b>	<b>\$80,000 max forgiveness</b>	<b>\$100,000 max forgiveness</b>
Amount forgiven is \$60,000	Amount forgiven is \$80,000	Amount forgiven is <b>\$80,000 because payroll costs were not at least 75%</b>
Amount for Payroll = \$60,000	Amount for Payroll = \$60,000	Amount for Payroll = \$60,000
Amount for Rent + Utilities + Mortgage Interest = \$0	Amount for Rent + Utilities + Mortgage Interest = \$20,000	Amount for Rent + Utilities + Mortgage Interest = \$20,000
Loan @ 1% over 2 years is \$40,000	Loan @ 1% over 2 years is \$20,000	Loan @ 1% over 2 years is \$20,000

Note: Loan = Loan Amount – Amount Forgiven

# PPP Loan Forgiveness Takeaways

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- Only employees who were laid off or whose wages were reduced from February 15 – April 26, 2020 can be re-hired by June 30<sup>th</sup> to eliminate any reductions in loan forgiveness
- Document how you use your loan proceeds and maintain copies of bills, contracts, payroll information, and bank records. You will need to provide these to your bank
- For the purposes of payroll, remember salaries are limited up to \$100,000 pro-rated (\$15,384.62 in total for 8 weeks)
- Considerations to help increase payroll to 75% threshold:
  - Are there semi-regular bonuses that you could move up into these 8 weeks (i.e., move some year-end bonuses to now), remembering that bonus count towards the \$100,000 annualized salary cap?
  - Are your employees on the front-line and perhaps deserve a hazard pay bonus?
  - Do you make semi-regular contributions for 401k and other retirement programs that could be moved up?
  - Could you restore a furloughed worker sooner, even if part time to start with the intention of restoring wages in full by June 30<sup>th</sup>?
- We still don't have final rules from the SBA, which makes planning challenging, particularly around the specifics of re-hiring employees

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