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 it's 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

   \[
   \text{Lesser of } \begin{cases} 
   a \text{ or } b \\ c 
   \end{cases} \times \text{Loan Amount} = \begin{cases} 
   \text{Lesser of } (6, 10) \\
   \text{Lesser of } (10, 11) 
   \end{cases} 
   \]

   \[
   6 \times 100,000 = 60,000
   \]

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

Final rules on forgiveness are still to be determined as of April 28, 2020
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%

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) $60,000 max forgiveness
  
  Amount forgiven is $60,000
  
  Amount for Payroll = $60,000
  
  Amount for Rent + Utilities + Mortgage Interest = $0
  
  Loan @ 1% over 2 years is $40,000

  ii) $80,000 max forgiveness
  
  Amount forgiven is $80,000
  
  Amount for Payroll = $60,000
  
  Amount for Rent + Utilities + Mortgage Interest = $20,000
  
  Loan @ 1% over 2 years is $20,000

  iii) $100,000 max forgiveness
  
  Amount forgiven is $80,000 because payroll costs were not at least 75%
  
  Amount for Payroll = $60,000
  
  Amount for Rent + Utilities + Mortgage Interest = $20,000
  
  Loan @ 1% over 2 years is $20,000

Note: Loan = Loan Amount – Amount Forgiven

Final rules on forgiveness are still to be determined as of April 28, 2020
PPP Loan Forgiveness Takeaways

- Only employees who were laid off or whose wages were reduced from February 15 – April 26, 2020 can be re-hired by June 30th 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 30th?

- 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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