

May 30, 2020

Dear Friends and Colleagues,

As the first wave of Paycheck Protection Program loans reaches the end of their eight-week forgiveness period, the House of Representatives just overwhelmingly passed a bill that would ease the strict rules governing the forgiveness process. The Senate is expected to pass something similar in the coming days.

The changes to the PPP Forgiveness process in the bill are as follows:

1. The forgiveness period would be extended from eight weeks to twenty-four weeks. This would be optional (you could still file for forgiveness after eight weeks), but would allow more time for small businesses to spend the loan proceeds appropriately;
2. The current law requires at least 75% of the loan amount be spent on payroll related costs, and 25% or less spent on non-payroll related costs. The bill changes that to 60%/40%;
3. The deadline to rehire workers will be pushed back from June 30, 2020 to December 31, 2020;
4. It fleshes out the reduction in workforce exceptions that could impact your Full Time Equivalent employee calculations. Small businesses would not be hurt if employees refused to come to work, were terminated for good cause, left voluntarily, or cut their hours voluntarily;
5. The repayment period for the portion of the loan that is not forgiven would be extended from two years to five years, all at a 1% annual interest rate;

While the above isn't law yet, things look encouraging.

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Of the three PPP loan forgiveness "tests", the use of funds test (75% or more on payroll-related costs, 25% or less on non-payroll costs) is pretty clear-cut. The third test – that employees making under \$100,000 be paid at least 75% of the pay-rate they were paid in the previous quarter – doesn't appear to be an issue. If anything, small businesses have increased wages for many of their employees during the last two months.

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The tricky one is the Staffing Requirement test. This requirement involves keeping your Full-Time Equivalent employees equal to or above previous levels at your business. This involves calculating the FTE employees during the eight-week forgiveness period and then comparing with two possible Baseline Periods: February 15, 2019 through June 30, 2019, or January 1, 2020 through February 29, 2020. A reduction in your FTE employees could result in a reduction in your loan forgiveness.

Because the process is so convoluted, we have attached an example to help illustrate how the calculation works for your review.

Should you have any questions about the above, please feel free to contact our office at any time.

Sincerely,



Tom A. McFerson, CPA, ABV
Gatto McFerson, CPAs

FULL-TIME EQUIVALENT EMPLOYEE CALCULATION

Step 1: Choose the best period for your FTE Baseline

Baseline Period # 1 February 15, 2019 through June 30, 2019

Total Hours Available: 768 Hours (96 work days x 8 hours per day)

(Note 1) Employee	(Note 2) Total Hours Worked	(Note 3) Total Hours Available	(Note 4) Full Time Ratio	(Note 5) Rounded to Nearest 10th	(Note 6) Alternative FTE Calc
A	400	768	0.52	0.60	0.50
B	350	768	0.46	0.50	0.50
C	768	768	1.00	1.00	1.00
D	768	768	1.00	1.00	1.00
E	768	768	1.00	1.00	1.00
F	768	768	1.00	1.00	1.00
G	600	768	0.78	0.80	0.50
H	768	768	1.00	1.00	1.00
I	150	768	0.20	0.20	0.50
J	100	768	0.13	0.20	0.50
Total	5,440		7.08	7.30	7.50

The lower FTE for Period 1 is 7.30. (Note 7)

Baseline Period # 2 January 1, 2020 through February 29, 2020

Total Hours Available: 344 Hours (43 work days x 8 hours per day)

(Note 1) Employee	(Note 2) Total Hours Worked	(Note 3) Total Hours Available	(Note 4) Full Time Ratio	(Note 5) Rounded to Nearest 10th	(Note 6) Alternative FTE Calc
A	180	344	0.52	0.60	0.50
B	170	344	0.49	0.50	0.50
C (gone)	-	344	0.00	0.00	0.00
D	300	344	0.87	0.90	0.50
E	344	344	1.00	1.00	1.00
F	344	344	1.00	1.00	1.00
G (gone)	-	344	0.00	0.00	0.00
H	344	344	1.00	1.00	1.00
I (gone)	-	344	0.00	0.00	0.00
J	50	344	0.15	0.20	0.50
K	344	344	1.00	1.00	1.00
L	145	344	0.42	0.50	0.50
M	110	344	0.32	0.40	0.50
Total	2,331		6.78	7.10	7.00

The lower FTE for Period 2 is 7.00. (Note 7)

