

# 10 Steps

## to Paycheck Protection Program Loan Forgiveness



### WHAT IS THE EXACT CALCULATION FOR DETERMINING LOAN FORGIVENESS?

The following is based on a hypothetical \$500,000.00 Paycheck Protection Loan (Loan Amount)

**Step 1:** Separate the categories of permitted uses of the Paycheck Protection Program Loan (PPPL) into the following:



- A. **Payroll Costs:** includes costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums; employee salaries, commissions, or similar compensations; and state and local taxes.
- B. **Non-Payroll Costs:** includes payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation); rent (including rent under a lease agreement); utilities; and interest on any other debt obligations that were incurred before the covered period.

**Step 2:** Calculate the total amount of your PPP loan spent in the eight-week/twenty-four-week period ("Covered Period") following disbursement of your loan for each category. If your payroll schedule is on a bi-weekly (or more frequent) basis, you may use an "Alternative Payroll Covered Period," which permits you to align the Covered Period (for payroll costs only) to your regular payroll schedule. The Covered Period clock would begin on the first date of the first pay period following the day the loan was disbursed. For example, if a loan was disbursed on April 13, 2020, in the middle of a pay period and the first day of the next pay period is April 20, then the Covered Period will begin running from April 20 for payroll costs.



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## Step 2: continued

### Example 1 (Total Non-Payroll Costs exceed 40%)

Type of Cost	Expense	Amount
Payroll Cost	Wages	\$255,000
Payroll Cost	Health Care Premiums	\$10,000
Payroll Cost	State and Local Taxes	\$5,000
	<b>Total Payroll Costs</b>	<b>\$270,000</b>
Non Payroll Cost	Rent	\$188,000
Non Payroll Cost	Internet, Phone, Electric	\$2,000
Non Payroll Cost	Mortgage Interest	\$40,000
	<b>Total Non-Payroll Costs</b>	<b>\$230,000</b>

### Example 2 (Total Non-Payroll Costs do not exceed 40%)

Type of Cost	Expense	Amount
Payroll Cost	Wages	\$295,000
Payroll Cost	Health Care Premiums	\$10,000
Payroll Cost	State and Local Taxes	\$5,000
	<b>Total Payroll Costs</b>	<b>\$310,000</b>
Non Payroll Cost	Rent	\$178,000
Non Payroll Cost	Internet, Phone, Electric	\$2,000
Non Payroll Cost	Mortgage Interest	\$10,000
	<b>Total Non-Payroll Costs</b>	<b>\$190,000</b>

## Step 3:



Add the total amount of Payroll Related Costs and Non-Payroll Related Costs ("Total PPP Spend").

**Example 1:** Payroll Costs (\$270,000) + Non-Payroll Costs (\$230,000)  
= **\$500,000 (Total PPP Spend)**

**Example 2:** Payroll Costs (\$310,000) + Non-Payroll Costs (\$190,000)  
= **\$500,000 (Total PPP Spend)**

## Step 4:



Determine if the total compensation received by any employee during the Covered Period has decreased by more than 25% from the average wages earned between January 1, 2020 to March 31, 2020 (Q1 2020).

The following salaries were reduced:

	Wage Rate of Last Full Quarter Prior to PPP Loan	Wage Rate during the Covered Period	Amount of Reduction in Excess of 25% (as prorated during the Covered Period)
Employee A	\$90,000/yr	\$60,000	\$1,153
Employee B	\$60,000/yr	\$40,000	\$769.00
		<b>Total Reductions Over 25%</b>	<b>\$1,922</b>

*Note: The wage reduction in excess of 25% is prorated over the Covered Period. Employees who earned an annualized salary of greater than \$100,000 for any period in the prior year are excluded from the 25% wage reduction. For example, if an employee earned more than \$3,846.25 before taxes in any pay period during 2019, the employee's compensation is excluded from the calculations in Step 4.*

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### Step 5:



Reduce the number from Step 3 by the percentage decrease in salary beyond a 25% reduction obtained in Step 4 to obtain Total Eligible Forgiveness Amount.

**Example 1:**  $\$500,000 - \$1,922 = \$498,078$  Total Eligible Forgiveness Amount

**Example 2:**  $\$500,000 - \$1,922 = \$498,078$  Total Eligible Forgiveness Amount

### Step 6:



Divide the average number of Full-Time Equivalent Employees ("FTEs") during the Covered Period by the average number of FTEs during 2/15/19-6/30/19 or 1/1/20-2/29/20 (at your choice). Seasonal employers have a third option of using any consecutive 12-week period between May 1 and September 15, 2019. FTEs are calculated on a weekly basis during the Covered Period or the Alternative Payroll Covered Period. For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower.

Average Monthly FTEs during the Covered Period: 40

Option 1: Average Monthly FTEs during 2/15/19 – 6/30/19: 52

Option 2: Average Monthly FTEs during 1/1/20 – 2/29/20: 48

Option 2 is the lowest FTEE count, so divide  $40/48 = .8333$

### Step 7:



**Determine Modified Total:** Multiply the Total Eligible Forgiveness Amount from Step 5 by the percentage from Step 6.

The following salaries were reduced:

**Example 1:**  $\$498,078 \times .8333 = \$415,048.40$  Modified Total

**Example 2:**  $\$498,078 \times .8333 = \$415,048.40$  Modified Total

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## Step 8:



Determine if the Safe Harbor Applies.

**Safe Harbor for Wage Reductions:** To determine if the safe harbor applies to any wage reductions beyond 25%, first look at what the employee was earning as of February 15, 2020. Then determine what the employee earned on average from February 15 through April 26, 2020. If the amount the employee earned on average between February 15 and April 26, 2020 is less than what the employee earned as of February 15, 2020, you then look to the employee's average wage as of December 31, 2020 or the date the Forgiveness Application is submitted, whichever is earlier. If the employee earned on average the same, or more on December 31, 2020 or the date the Forgiveness Application is submitted as what the employee earned as of February 15, 2020, the safe harbor applies. A salary reduction during the Covered Period will not count against PPP loan forgiveness, so long as that salary is restored by December 31, 2020 or the date the Forgiveness Application is submitted.

**Safe Harbor for FTEE Reductions 1:** To determine if the safe harbor applies to any reductions in FTEEs, first to look to the number of FTEEs for the pay period including February 15, 2020. Then determine the average FTEEs from February 15, 2020 through April 26, 2020. If you had more FTEEs on February 15, 2020 than the average FTEEs between February 15, 2020 and April 26, 2020, so long as on December 31, 2020 or the date the Forgiveness Application is submitted you restore the FTEE count to what it was as of February 15, 2020, the safe harbor is met and you avoid a reduction in forgiveness based on FTEs within the Covered Period.

**Safe Harbor for FTEE Reductions 2:** You are exempt from the reduction in loan forgiveness based on a reduction in FTE employees during the Covered Period if you, in good faith, are able to document that you were unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.

**Example 1:** Safe Harbor for FTE Reduction 1 is met: Modified Amount:  
**\$498,078**

**Example 2:** Safe Harbor for FTE Reduction 1 is met: Modified Amount:  
**\$498,078**

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### Step 9:



**Determine the Payroll Cost 60% Amount.** Take the Total Payroll Costs Amount from Step 1 and divide by .60

**Example 1:**      $\$270,000 \div .60 = \$450,000.00$

**Example 2:**      $\$310,000 \div .60 = \$516,666.68$

### Step 10:



Determine the lowest potential forgiveness amount between the Loan Amount, Modified Total, and Payroll Cost 60% Requirement. The lowest of these three amounts is your forgiveness amount.

**Example 1:**

Loan Amount:                                     \$500,000.00

Modified Amount:                                \$498,078.00

Payroll Costs 60% Requirement:   \$450,000.00\*

\*Because non-payroll costs exceeded 40%, forgiveness is capped.

**Example 2:**

Loan Amount:                                     \$500,000.00

Modified Amount:                                \$498,078.00

Payroll Costs 60% Requirement:   \$516,666.68

Pat yourself on the back, but then double-check your work. Computing PPP Loan Forgiveness is an admittedly confusing process. If you need any help or assistance on PPP Loan issues, the [SBA Loan Task Force](#) at Fisher Phillips is available to help.

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