Paycheck Protection Program: How Nonprofits Can Manage Their Loans & Forgiveness 102

With Updates as of May 20, 2020
Continue to Check SBA’s Website

This information is provided for general informational and educational purposes only and does not constitute legal advice. Please note guidance is changing regularly and we encourage you to check with the SBA and your lender for updated information.
What are we covering today?

- *We Received Our Loan...* **Now What**?

- **What** Can We Use The Loan For?

- How Will **Forgiveness** Work? How Much Can We Get Forgiven?
Managing Your Loan & Forgiveness Guidance

NOTE: As of Friday 5/15 at 8pm the SBA has released the loan forgiveness application. Our guidance below does not yet reflect the details of this application. We will have revised guidance soon!

- PPP Loan Forgiveness Application from the SBA (pdf)
  Updated Monday 5/15 10 pm ET

- Highlights: Newly Issued SBA Paycheck Protection Program Loan Forgiveness Application
  Updated Monday 5/18 9 am ET

- Daily webinar: Managing Your Loan

  Slide deck: FMA guide to Managing your PPP Loan and Forgiveness 101 (pdf)
  Updated Monday 5/18 10:30 am ET

- Forgiveness Estimator (xls) Updated Tuesday 5/12 4pm ET; new version forthcoming!
  While we await further SBA guidance on forgiveness, this estimator will help you get started on the amount of your loan you might expect to get forgiven.

https://fmaonline.net/ppptoolbox/
How do we reach FMA with additional questions and support on PPP after today?

Please reach out to FMACARES@fmaonline.net

One of our experts will assist you with your questions as soon as possible.
Basics of the PPP

- Federal loan administered by the SBA
- It is a loan with conditions on how it can be used
- There is an opportunity for it to be fully forgiven
- Whatever is not forgiven, continues as a loan to be spent on allowable uses at 1% interest
- Goal is to retain workers and have business continuity, not expansion
# Paycheck Protection Program
## Loan Forgiveness Application

### PPP Loan Forgiveness Calculation Form

<table>
<thead>
<tr>
<th>Business Legal Name (“Borrower”)</th>
<th>DBA or Tradename, if applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Address</th>
<th>Business TIN (EIN, SSN)</th>
<th>Business Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary Contact</th>
<th>E-mail Address</th>
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</tbody>
</table>

SBA PPP Loan Number: ____________________________  Lender PPP Loan Number: ____________________________

PPP Loan Amount: ____________________________  PPP Loan Disbursement Date: ____________________________

Employees at Time of Loan Application: __________

Employees at Time of Forgiveness Application: __________

## Key Updates on Forgiveness

<table>
<thead>
<tr>
<th></th>
<th>Prior to 5/15...</th>
<th>Based on NEW 5/15 Forgiveness Application</th>
</tr>
</thead>
</table>
| **Forgiveness period**    | 8 weeks, starting the day that the loan is disbursed, capped on June 30<sup>th</sup> | 1. 8 weeks starting the day that the loan is disbursed, with no explicit June 30<sup>th</sup> cap.  
2. However, an alternative payroll covered period for 8 weeks can be used based on certain payroll start dates. See further slides for more details. |
| **Timing of eligible expenses during Forgiveness period** | Unclear if incurred and/or paid                                                  | Application established that expenses paid and expenses incurred methodologies are allowed. We are awaiting further clarity on whether and how these methodologies interact with each other. |
| **Calculating penalties for workforce/wage reductions** | Unclear                                                                         | 1. Formulas provided to make the workforce and wage reduction calculations  
2. Wage reduction applies first, then FTE reduction  
3. Further guidance for seasonal employers |
| **Calculating hours for a full-time equivalent employees** | Unclear                                                                         | 40 hours/week or simplified method of 1 FTE (full-time at 40 hours) and .5 FTE (part-time for anyone less than 40 hours)                                                                 |
| **Exceptions to workforce reductions** | Exception for employees who refuse to return despite written offer               | Exceptions for (1) employees who refuse to return despite written offer as well as (2) employees fired for cause and (3) employees who have voluntarily resigned or requested reduction in hours |
Managing Your Loan

- Record loan in your general ledger as a liability and monthly interest expense.
- Try to bring back your employees and restore salaries.
- Pick a payroll forgiveness period. Record expenses as you normally would, and track allowable PPP expenses.
- Estimate potential Forgiveness and any penalties.
- Submit Forgiveness paperwork.
- Prepare to pay back what isn't forgiven.

Check out FMA PPP Toolbox for Accounting Guidance.
What Can We Use the Loan For?
What Can We Use the Loan For?

- **Payroll** (total loan must be at least 75% for payroll)

- **Utilities, rent, mortgage interest, interest payments on other debt obligations** (with arrangements in place by 2/15/20)

There are consequences of spending on unallowable expenses, including needing to return funds used for these unallowable purposes. If done knowingly, this could be considered fraud with certain penalties.
What Can We Use the Loan For?

At least 75% on Payroll

Allowable:
- Gross Salaries, Wages, Tips, Paid Leave, Severance
- Employer Paid Health* & Retirement Benefits
- Employer Paid State & Local Payroll Taxes
- Rent & Mortgage Interest, Other Interest^
- Utilities (Water, Gas, Electricity, Transp. Internet, Phone)

Unallowable: All Other Expenses Including
- Excess Wages for Salaries > $100k**
- Payroll for Employees Perm. Outside USA
- Employer Portion of Federal Taxes & FICA
- FFCRA Credits for Sick and Family Leave
- Independent Contractor Pay (1099s)

*Group health benefits includes medical, dental, and vision.
^ Other Interest not eligible for forgiveness
** Limited to $1,923 weekly gross wages eligible for PPP
**What Can We Use the Loan For? Open Questions**

Even with new guidance, we still have open questions. Here are some suggestions for you may want to proceed, but for all of these it is best to **plan that none of these will be allowable** and then be nicely surprised if we find out they are allowed. Remember PPP is about **business continuity** and not business expansion.

<table>
<thead>
<tr>
<th>Open Questions</th>
<th>Way You May Want to Proceed</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will <strong>bonuses</strong> and <strong>hazard pay</strong> be treated?</td>
<td>SBA's definition of cash compensation does not explicitly reference either of these. However, bonuses that would typically be paid out during your 8-week period as part of your regular compensation approach will probably be allowable. Hazard pay and retention bonuses will be probably also be ok. However, be cautious with excess bonuses and keep in mind the $15,385/employee cap.</td>
</tr>
<tr>
<td>What kind of <strong>transportation</strong> is allowed in the definition of utilities?</td>
<td>Include costs that are core to the way you do business where you had agreements in place by 2/15/20.</td>
</tr>
</tbody>
</table>
| If you **reimburse staff** for internet, telephone, or home office use as **non-taxable reimbursements** rather than pay a vendor directly, are those expenses allowable as **utilities**? | While some lenders have indicated these will be allowable, this will probably be lender specific on if they’re willing to look through all of your payroll paperwork to justify why you included.  
If you add them as W-2 income for your employees, you should be able to include as part of gross wages/salaries. |
PPP & Restricted Funding Sources

- Organizations receiving federal funds cannot "double dip," meaning you cannot claim to the federal government you spent different federal funds on the same expenses. It is likely PPP funds will be treated as federal funds for this purpose.

- Nonprofits will need to keep good records to show which employees are being paid from what source so that the government isn't paying more than 100% of a salary. This is a good approach for all of your restricted funding sources.

- You should consider comparing your allowable expenses for PPP vs. your restricted grants and contracts.

- There may be other allowable expenses your other restricted funding sources can cover, including during the 8-week period.

- Some may choose to reduce their forgiveness request because they want to be able use a drawn down from their restricted funding sources.
Any other nuances to understand?

- If you share employees and/or allowable operations expenses with another nonprofit that isn’t a (c)(3) or (c)(19), do not use the loan to cover the expenses associated with that other organization and do not include in your forgiveness request.

- If you received sick and family leave credits covered by the Families First Coronavirus Response Act (FFRCA), you cannot include those leave credits in allowable PPP payroll expenses.

- **Open Question**: What further guidance, if any, will be put in place to prevent abuse?
How Will Forgiveness Work?
Overview: How Much Will We Get Forgiven?

Up to 100% of the funds you spend in the 8-week period if you:

1) Keep or increase your FTEs
2) Maintain salaries or hourly rates of employees; and
3) Spend the loan on what it is supposed to be spent on, including at least 75% for payroll

BUT - if you have to decrease salaries or hourly rates or reduce FTEs, you will get a partial reduction in forgiveness.

Important: FTEs = Full-Time Equivalents. NOT Headcount

Reductions that were made between 2/15/20 – 4/26/20 will not reduce forgiveness if fully replenished by 6/30/20.
Let’s start with the timing and details of those 8 weeks...
When is the 8 Week Period for Forgiveness?

The primary purpose of the loan is to use it on allowable expenses during the 8 weeks following when you received it. The allowable spending you have during this 8 weeks is what will count for forgiveness.

How To Define 8 Weeks aka 56 Days

**Covered Period** is 8 weeks (56 days) starting with the loan disbursement date.

However, for administrative convenience, Borrowers can calculate eligible payroll costs using an Alternative Payroll Covered Period if they are on a bi-weekly or more frequent schedule. Not applicable for semi-monthly or monthly payroll.
When is the 8 Week Period for Forgiveness?

How To Define 8 Weeks aka 56 Days

**Payroll Costs**

1. Day the Lender Made the Disbursement + 55 Days (the **Covered Period**)  
   OR
2. Day Of Your First Bi-Weekly or More Frequent Payroll Following Loan Disbursement + 55 Days (the **Alternative Payroll Covered Period**)  

**Non-Payroll Costs**

1. Day the Lender Made the Disbursement + 55 Days (Covered Period)
Understanding The 8-Week Covered Period

Starting date: The day the lender makes the PPP loan disbursement.

Forgiveness “covered period:” 8 weeks

May be used for payroll; must be used for non-payroll expenses.
The Alternative Payroll Covered Period

Starting date: The day your first bi-weekly or more frequent payroll starts after receiving the loan.

 Forgiveness “alternative covered period:” 8 weeks

Cannot be used for non-payroll expenses

Not applicable for semi-monthly or monthly payroll periods.
Do we include the expenses paid during or incurred in the 8 weeks in our calculations?

The Application allows for both methodologies to be used.

For now, plan on picking one and sticking with it.

But further guidance may provide more clarity on whether and how these methodologies interact with each other.
What Counts During the 8 Weeks Towards Forgiveness?

Example Period: April 15, 2020 – June 9, 2020 Based on An **Incurred** Basis

- **Rent for March** paid on April 15
- **Rent for April 1 - April 30** paid on April 1
- **Payroll for April 6 - April 13** paid on April 15
- **Payroll for April 15 - April 30** paid on April 30
- **Water bill for May 1 - May 31** paid on June 20
- **Payroll for May 25 - June 9** paid on June 12
- **Rent for all of June** paid on May 31
- **Mortgage interest from June** paid on July 5
- **Electricity bill for June 15 - July 14** paid on July 31

**KEY**
- **All of It Counts**
- **Part of It Counts**
- **None of It Counts**

SBA may provide further guidance as there are some alternative ways to read their application.
Now, how much will be forgiven?
What Can I Do Today To Begin Estimating Forgiveness?

1. Estimate **how much you will spend** on allowable payroll and operations expenses during the **8-week period**

2. Estimate any **Workforce or Wage Reduction** penalties

3. Ensure you spend **at least 75%** on allowable payroll expenses

4. Understand if you may need to shift arrangements with any of your **restricted funding sources**

*Please also review your promissory note, use our estimator, and review the SBA Forgiveness Application.*
What Do I Need To Do Today To Maximize?

1. **Bring your staff back** on payroll (even if they can’t do their normal job); you may also hire additional staff to do needed work

2. **Restore any salaries or hourly wages** cut between February 15th – April 26th

3. **Pay payroll and all relevant bills on time**

4. **Keep track** of all your receipts and paperwork
Basic Formula: How Much Will We Get Forgiven?

Assuming you spend at least 75% on allowable payroll...

Step 1: Payroll Costs Spent During 8 Weeks + Non-Payroll Costs Spent During 8 Weeks

Step 2: Salary Reduction Penalty For Reducing Salaries or Hourly Rates of Staff Working

Step 3: FTE Reduction Penalty % for Having Lower FTEs

Step 4: Amount Forgiven = EIDL Advances May Also Reduce the Amount Forgiven

More Nuances on Next Slides
Diving In: What Expenses Count Towards Forgiveness?

Payroll Costs Spent During 8 Weeks + Non-Payroll Costs Spent During 8 Weeks

- **Allowable**
  - Gross Salaries, Wages, Tips, Paid Leave, Severance*
  - Employer Paid Health** & Retirement Benefits
  - Employer Paid State & Local Payroll Taxes
  - Rent & Mortgage Interest,
  - Utilities (Water, Gas, Electricity, Transp. Internet, Phone)

*Group health benefits includes medical, dental, and vision.
**Limited to $15,385 total cash compensation for forgiveness per employee
Defining Full-Time Equivalent Employees (FTEs/FTEEs)

FTEs ≠ headcount or number of employees

If you have 5 part-time employees, who each work 1 day per week...

<table>
<thead>
<tr>
<th>Headcount</th>
<th>FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>1.0</td>
</tr>
</tbody>
</table>
Diving In: FTE Reduction Penalty

Goal: Compare your FTEs during your 8-week forgiveness period to a prior comparison period to see if a penalty needs to be assessed if you do nothing.

While you will look at specific employees to determine your FTE count in the time periods, you do not need to retain the exact same people.
Diving In: FTE Reduction Penalty

Based on the initial reading of the Application:

(1) Choose a Calculation Method

**Mathematical Method**

1 FTE = 40 hours/week

Example: Someone who is paid for 10 hours/week = .25 FTE

**Simple Method**

Anyone who is paid for 40 hours/week or more = 1 FTE

Anyone who has fewer hours = .5 FTE

(2) Choose a Comparison Period

Choose the period with the lower FTE count

- **Feb 15, 2019 – June 30, 2019**
- **January 1, 2020 – Feb 29, 2020**

*Seasonal* can also choose to use any consecutive 12-week period between 5/1/19 – 9/15/19
### Using the Mathematical FTE Method

You take a look at who was paid during the Covered Period...

<table>
<thead>
<tr>
<th>Employee</th>
<th>Average Hours Paid Per Week</th>
<th>FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joanne</td>
<td>30</td>
<td>0.75</td>
</tr>
<tr>
<td>Jackson</td>
<td>40</td>
<td>1.0</td>
</tr>
<tr>
<td>Robert</td>
<td>40</td>
<td>1.0</td>
</tr>
<tr>
<td>Dianne</td>
<td>20</td>
<td>0.5</td>
</tr>
<tr>
<td>Rami</td>
<td>10</td>
<td>0.25</td>
</tr>
<tr>
<td>Benjamin</td>
<td>10</td>
<td>0.25</td>
</tr>
<tr>
<td>Michelle</td>
<td>20</td>
<td>0.5</td>
</tr>
</tbody>
</table>

**Average FTEs Per Week During the 8-Week Forgiveness Period**

4.25
Diving In: FTE Reduction Penalty

Now...Compare to one of the time period options

8-Week Period

4.25 vs. 3.0

Feb 15, 2019 – June 30, 2019

Jan 1, 2020 – Feb 29, 2020

5.5

✓ Okay, the FTE Count in the 8-Week Period is higher than a comparison period
Diving In: FTE Reduction Penalty

Now...for the actual reduction formula:

Average # of FTEs Per Week During 8 Week Period

Option 1: Average # of FTEs Per Week Feb 15 – Jun 30, 2019

Or

Option 2: Average # of FTEs Per Week Jan 1 – Feb 29, 2020

Basis for FTE Reduction Penalty %

Use FMA Estimator for Specific Calculations

But There Are Some Exceptions and Nuances...
# Forgiveness Scenario Examples

SBA guidance allows you, the borrower, to pick one of two options to compare to your PPP 8-week period to understand how much you'll be able to get forgiven.

<table>
<thead>
<tr>
<th></th>
<th>Scenario 1</th>
<th>Scenario 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Between 2/15-6/30/19 (Option 1) you had...</strong></td>
<td>Monthly Average: 10 FTEs</td>
<td>Monthly Average: 10 FTEs</td>
</tr>
<tr>
<td><strong>You grew in January and February of 2020 (Option 2), so you had...</strong></td>
<td>Monthly Average: 15 FTEs</td>
<td>Monthly Average: 15 FTEs</td>
</tr>
<tr>
<td><strong>The crisis resulted in layoffs, so when you received your loan you had...</strong></td>
<td>5 FTEs</td>
<td>5 FTEs</td>
</tr>
<tr>
<td><strong>With PPP funds you can rehire during the 8-week period...</strong></td>
<td>You rehire 5 FTEs for a weekly average of 10 FTEs for the 8-week period</td>
<td>You rehire 3 FTEs for a weekly average of 8 FTEs for the 8-week period</td>
</tr>
<tr>
<td><strong>Forgiveness Result</strong></td>
<td>No Penalty</td>
<td>20% Reduction Penalty</td>
</tr>
</tbody>
</table>

In both scenarios, you would compare to Option 1 – the lower FTEs option.
Diving In: FTE Reduction Penalty

Do We Qualify for An Exception That Won’t Reduce Our Forgiveness?

We made a good-faith written offer to rehire an employee during the 8-week period and it was rejected.

During the 8-week period, an employee was fired for cause, voluntarily resigned, or voluntarily requested and received a reduction of their hours.

Yes!

If the position was not filled by a new employee, you can count these employees at their FTE in your 8-week period calculation.
Do We Qualify for A Safe Harbor That Won’t Reduce Our Forgiveness?

Our workforce was reduced between 2/15/20 – 4/26/20 and it was fully restored to the levels as of 2/15/20 by 6/30/20

Yes!
You also get to count your FTEs as of June 30th to see who you brought back by then
Diving In: Salary Reduction Penalty

Did you reduce your salary levels or hourly rates in 2020?

NO!

No Reduction

YES

See the Appendix to See the Potential Effect and Safe Harbor
But what if I don’t spend 75% on payroll during the 8 weeks?

If you spend less than 75% of the total loan amount on payroll, you will get a proportional reduction in forgiveness based on how much you actually spent on allowable payroll.

But it is possible the Workforce and Wage Reduction penalties will hurt more than the 75% rule.
Forgiveness Estimator Available on the Toolbox

Forgiveness Estimator

**Step 1 - Enter Loan and Payroll Details**

- Loan Amount
- Covered Period Start Date
- Covered Period End Date

The Alternative Payroll Covered Period Date is an alternative date range that can be used for payroll related calculations if you have weekly or bi-weekly payroll

- Alternative Payroll Covered Period Start Date
- Alternative Payroll Covered Period End Date

**Select a Time Period to Use**

- Use Drop Down Menu to Select Time Period
- Covered Period

**Step 2 - Payroll Costs for Covered Period**

Enter Payroll Costs Paid and Payroll Costs Incurred during the Covered Period

- Payroll Costs

**Step 3 - Non-Payroll Costs for Covered Period**

Enter Non-Payroll Costs Paid and Non-Payroll Costs Incurred during the Covered Period

- Rent
- Mortgage Interest
- Utilities

- Total Non-Payroll

**Step 4 - Forgiveness Reductions**

- Total Salary/Hourly Wage Reductions
- FTE Reduction Quotient
- Modified Total Costs

**Step 5 - Potential Forgiveness Amounts**

- Modified Total Costs
- PPP Loan Amount
- Payroll Cost 75% Requirement
- Forgiveness Amount (Estimated)

https://fmaonline.net/ppptoolbox/
What Will the Forgiveness Process Look Like?

- Gather payroll information, relevant IRS Forms 941’s, and documentation backing up every expense you are looking to get forgiven.

- Fill out a forgiveness application with certain certifications and make calculations. Submit to your lender.

- Lender will have 60 days to return result.

- Loans above $2M will be subject to an audit from the SBA. More details to come.
FMA Paycheck Protection Program Toolbox

Most recent updates below: Wednesday 5/13 3pm ET

Click to Subscribe for PPP Updates  Take our brief PPP Survey

Our PPP Toolbox is designed to support nonprofit organizations as they navigate the Paycheck Protection Program, from Application, through Loan Management and Reporting, and Forgiveness. If you are looking for information to support a small business, you may find our tools useful, but they are designed primarily with the needs of nonprofit organizations in mind. The links below will take you to the relevant section of this page:

- FMA Resources – The latest tools and answers to your questions
- FMA Clinics – Free assistance in a live webinar format, daily.
- Federal Government Resources
- Others’ Resources

https://fmaonline.net/ppptoolbox/
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Works directly with organizations or through funder-supported management and technical assistance programs

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@FMA4Nonprofits

www.fmaonline.net/linkedIn

www.fmaonline.net
Appendix: Diving in On Forgiveness
Diving In: Salary Reduction Penalty

Of the employees with avg. annualized salaries of $100k or less during all pay periods in 2019 who were working during the 8 weeks, did you reduce any of their salaries/hourly rates after Jan 1, 2020?

**Step 1:** Was their avg. rate reduced by more than 25% when comparing the 8-week period to 1/1/20 – 3/31/20?

**NO!**

**Step 2:** Did the reduction happen between 2/15/20 – 4/26/20?

**YES!**

**Step 3:** Was the rate the employee had on 2/15/20 restored by 6/30/20?

**YES!**

Reduce by Compensation Lost During 8-Weeks As a Result of Salary/Wage Cut

No Reduction

Use FMA Estimator for Specific Calculations
But what if I don’t spend 75% on payroll during the 8 weeks?

So, there are three potential forgiveness amounts. Your forgiveness amount is the smallest of these three options:

1. **Total Loan Amount**
2. **Potential Forgivable Amount Less the Penalties**
3. \( \frac{Amount \ Spent \ on \ Payroll \ in \ the \ 8 \ Weeks}{.75} \)

This means if you spend less than 75% of the total loan amount on payroll, you will get a proportional reduction in forgiveness.

But it is possible the penalties will hurt more than the 75% rule.