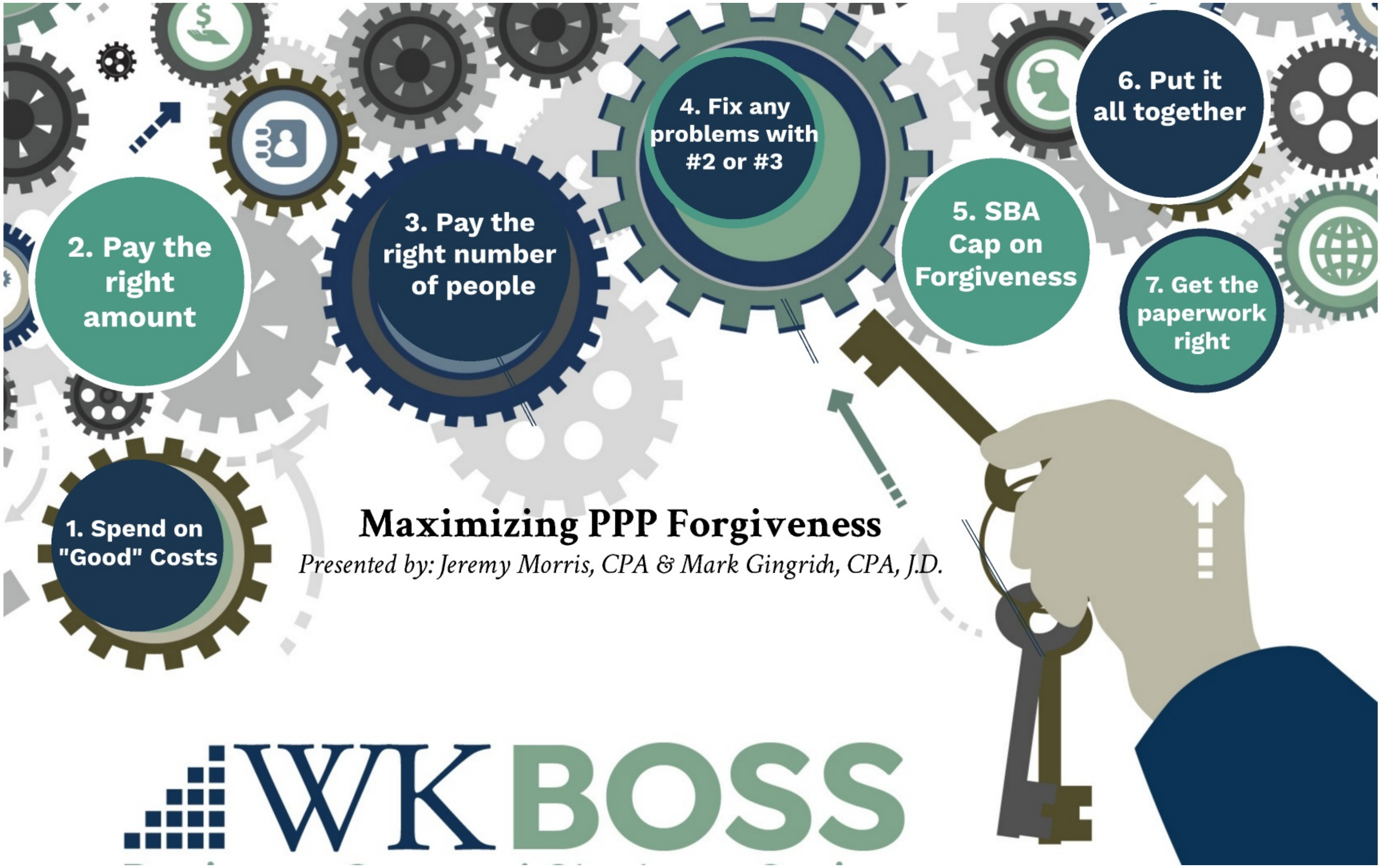
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WK BOSS


Payroll (75%)
STEP 1:
Spend on Good Costs
Spend funds on "good" costs during the 8-week period generally beginning the day loan proceeds are received
Non-payroll good costs

Payroll

"Any compensation with respect to [U.S.] employees"

Employee Compensation

- Gross compensation capped at $15,385 per employee (equivalent of $100K annualized)
- Employer-paid health insurance for all employees
- Employer-paid retirement for all employees
- Employer-paid state and local taxes assessed on employee compensation (e.g., unemployment insurance tax) -- This is NOT employee tax withholding.

Note: Owner-employee compensation cannot exceed 8/52 of 2019 compensation.
Retirement and health insurance for owner-employees also limited to 2019 amounts.

Gross Compensation Includes

Gross salaries, wages, tips, commissions, most paid leave (not FFCRA leave), and dismissal / separation payments.

Choice Between Payrolls

General rule: amounts paid during 56 days beginning the date the PPP funds are received + amounts incurred at the end of the 56-day period and paid on the next normal payroll date.

Special rule for businesses running bi-weekly or more frequent payrolls: for administrative convenience, can use the 56-day period beginning on the first day of the pay period after the funds have been received ("Alternative Payroll Covered Period")

When Are Wages Paid?

Manual checks: the date the paychecks are distributed

OR

Electronic payment: the date the business originates the ACH credit transaction

When Are Wages Incurred?

On the date the employee's pay is earned

Self Employment Income

- These are NOT payments made to independent contractors
- These ARE payments received by owners, e.g., the SE income of owners reported on their Sch C or Sch F, and the income of general partners
- Capped at $15,385 per person ($100K annualized)
- In addition, this amount is capped at 8/52 of 2019 SE income.

Non-Payroll Good Costs

Must be paid during the 8-week Covered Period

OR

Must be incurred during the Covered Period AND paid on or before the next regular billing date (even if outside the Covered Period)

Note: Alternative Payroll Covered Period is irrelevant for non-payroll costs

Mortgage Interest

Incurred in ordinary course of business,

debt is a liability of the borrower,

secured by real or personal property, and

the debt is incurred before Feb 15, 2020

Note: interest cannot be prepaid

Rent

Obligated under a leasing arrangement under a leasing agreement in force before Feb 15, 2020.

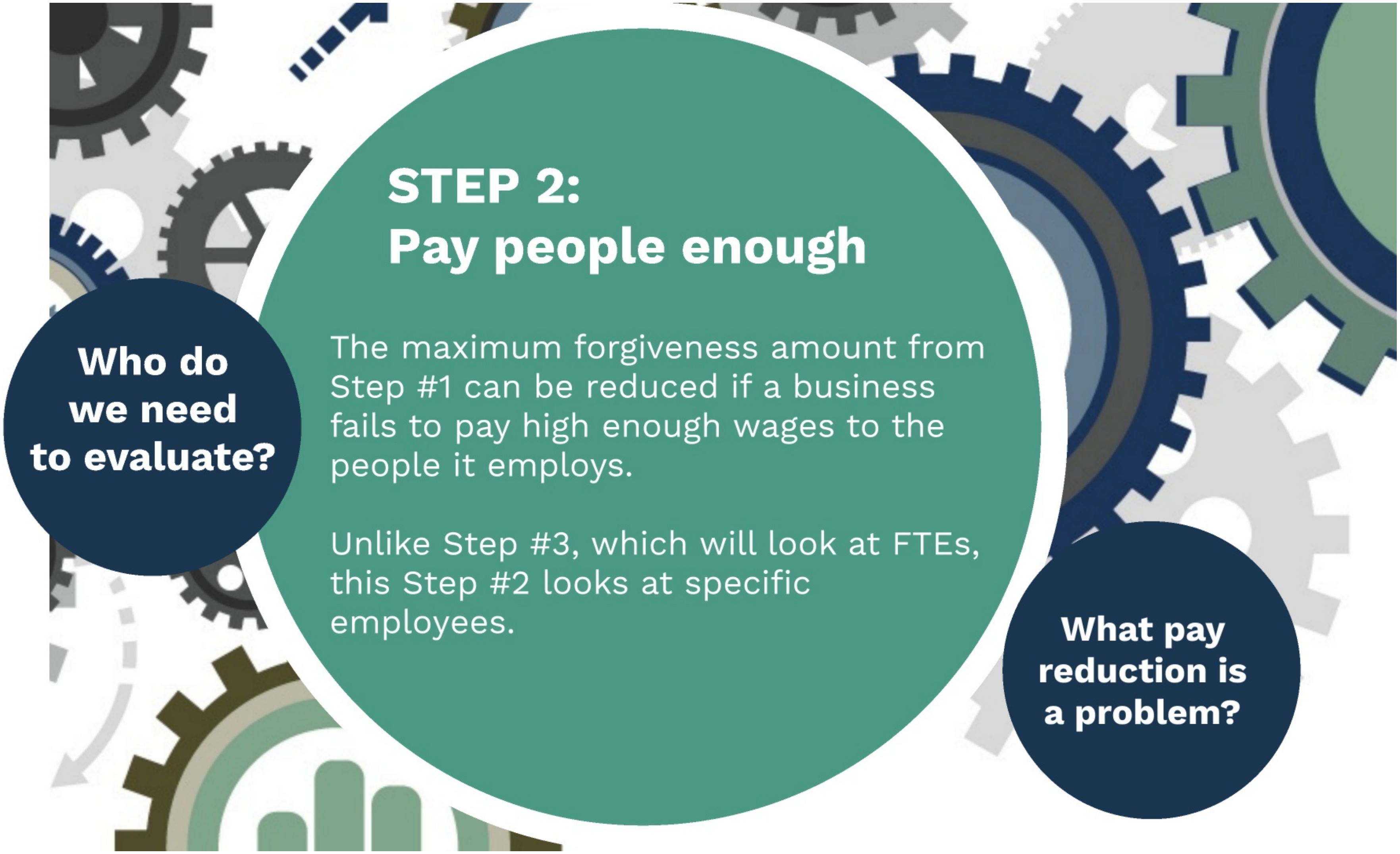
Should apply to related-party rentals at fair-market rental rates.

Includes rental of real and tangible personal property used in the business.

Utilities

Amounts paid for the following, so long as service began before Feb 15, 2020:

- Electricity distribution
- Gas
- Water
- Telephone
- Internet access
- Transportation (we think this means auto fuel)


STEP 2:
Pay people enough
The maximum forgiveness amount from Step #1 can be reduced if a business fails to pay high enough wages to the people it employs.
Unlike Step #3, which will look at FTEs, this Step #2 looks at specific employees.
Who do we need to evaluate?
What pay reduction is a problem?

Considered Employees

- Annualized salary for all pay periods in 2019 was less than or equal to $100K; or
- Was not employed by the business at any time during 2019.

What are we testing for?

If 8-week average pay post-closing for an employee was less than his or her average pay for Q1 2020 AND if the reduction was more than 25%, then the pay cut could reduce the maximum forgiveness by the amount the pay reduction exceeds 25%.

Note: pay reductions related to reduction in FTEs (e.g., a 40 hr/wk employee is reduced to 20 hrs/wk) does not create a pay reduction problem under this provision.


STEP 3:
Pay the right number of people
The maximum forgiveness amount from Step #1, as reduced by Step #2, can be further reduced if a business fails to employ enough people.
FTE Counts

The right number of people is based on full-time equivalents (FTE's)

- Comparison of 8-week FTE count to baseline FTE count.

8-Week FTEs

The question is whether we employed enough people to achieve full forgiveness.

The FTE count for the 8-week period following loan closing will be compared to the base FTE count.

If the business has a bi-weekly payroll cycle (or more frequent) and elects to use the 8-week period starting with the first payroll after the loan closing, then the FTE count will use the same "Alternative Payroll Covered Period"

Special Rule for Voluntary Exits

8-week FTEs will be increased to the extent:

- the business made a good-faith written offer to rehire (or restore reduced hours) during the Covered Period (or Alternative Payroll Covered Period) at the same salary or wages as in the last pay period prior to separation or reduction which the employee rejected; and the business maintained the proper records and informed the applicable state unemployment office of the rejected offer within 30 days of the rejection; or
- the employee voluntarily resigned, was fired for cause, or voluntarily requested and received an hours reduction.

AND

The position or hours were not refilled, by another employee already included in the FTE count

Base FTE Counts

For a non-seasonal business, the base period will be either the FTE count from:

(a) Feb 15, 2019 thru June 30, 2019, or
(b) Jan 1, 2020 thru Feb 29, 2020.

Businesses will pick the **lower** of the two FTE counts.

Example

Example: Company A borrows $210K and has $140K payroll costs and $60K non-payroll Good Costs during the 8-week period after the loan closes.

Maximum forgiveness is $200K, so at least $10K must be repaid.

8-week FTEs = 18
Base FTEs = 20

Because 18 < 20, there is a reduction in forgiveness:

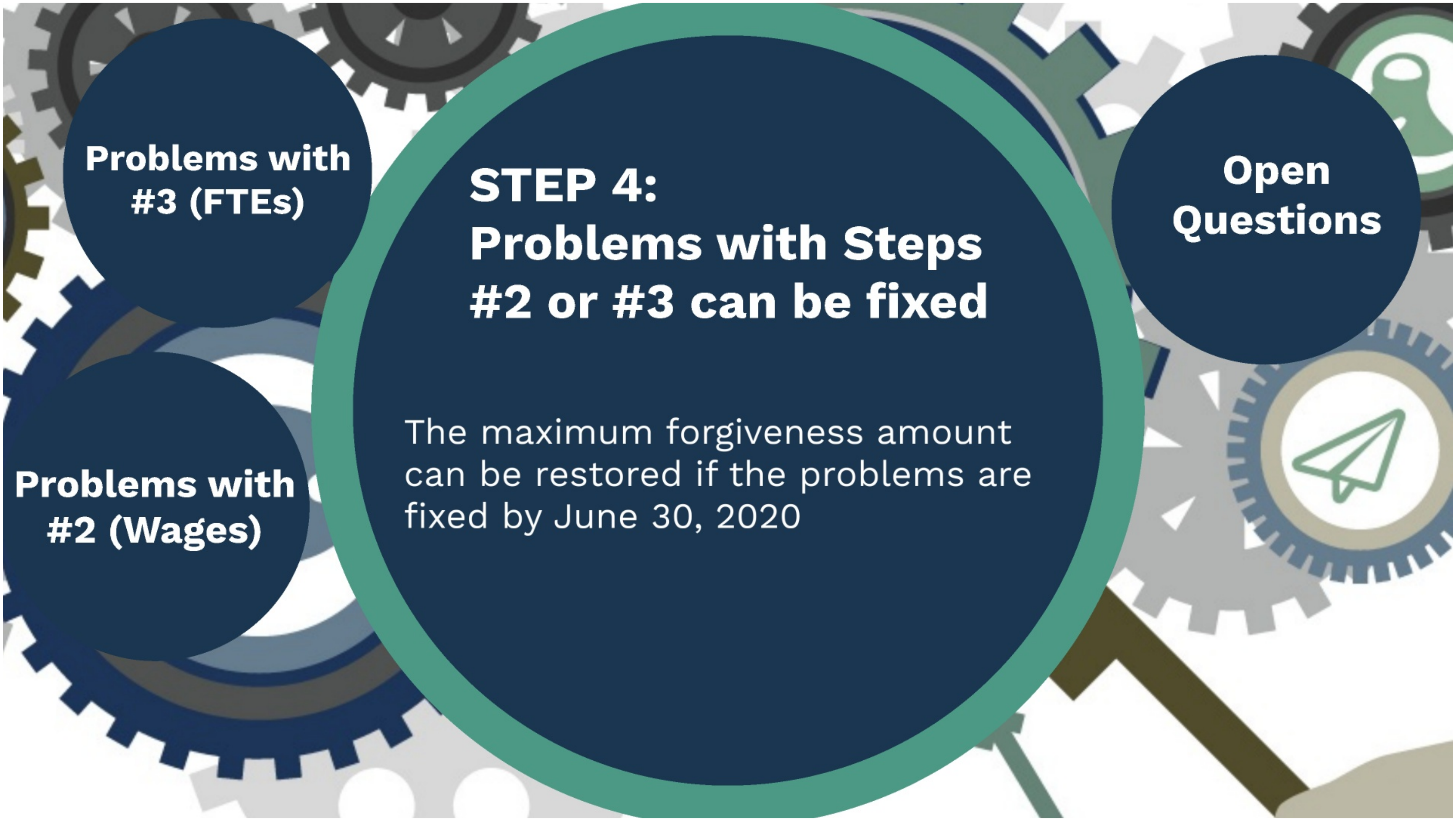
Reduction = $200K x 2/20 = $20K

How To Count FTEs

Count employees who work 40 hours or more, on average, as 1.0 no matter how many hours worked

Choice for employees who work less than 40 hours per week, on average:

(a) consistently count as 0.5 FTEs; or
(b) consistently calculate the number of hours worked within the period using a 40-hour workweek


Problems with #3 (FTEs)
STEP 4:
Problems with Steps #2 or #3 can be fixed
The maximum forgiveness amount can be restored if the problems are fixed by June 30, 2020
Open Questions
Problems with #2 (Wages)

Business Had Reduction In Wages

More than 25% reduction in a sub-$100K employee's wages is COMPLETELY ignored if:

Employer "eliminates the reduction" for all affected employees by June 30, 2020

Business Had A Reduction In FTEs

If the 8-week FTE count was less than the base FTE count AND if the FTE count was reduced between Feb 15, 2020 and Apr 26, 2020, THEN the reduction computed in Step #3 is COMPLETELY irrelevant (i.e., there is no reduction) if:

June 30, 2020 FTE count >= Feb 15, 2020 FTE count.

Feb 15, 2020 is yet another measurement period, and is based on FTEs on a Saturday.

Measurement For Safe Habor

1. Average FTEs for Feb 15, 2020 through Apr 26, 2020 (using actual hours for part time and 40-hr workweek or 0.5 count for part-time)

2. FTEs for pay period including Feb 15, 2020

If (1) < (2), then total FTEs as of June 30, 2020 (how measured?) is compared to (2). If June 30 FTEs > (2), then safe harbor is met, and any reduction during the Covered Period (or Alternative Payroll Covered Period) is ignored.

Open Questions

How do we measure June 30 FTEs? Pay period including June 30?

What restoration is required to cure a 25% pay reduction? Average pay for the 8-week period? Pay rate as of June 30 and prospectively? Pay rate on payroll including June 30?

STEP 5:
Cap because this is about payroll protection

After applying reductions in Steps #2 and #3, subject to the opportunity to cure in Step #4, if too much of the forgiveness request reflects non-payroll Good Costs, the amount to be forgiven faces one more potential limitation

75% Test

At least 75% of Forgiven Loan must reflect Payroll costs

Example: Company A borrows $210K and has $140K payroll costs and $60K non-payroll Good Costs during the 8-week period after the loan closes. Maximum forgiveness is $200K, so at least $10K must be repaid. $13.3K of the non-payroll Good Costs become Bad Costs ($140K / ($140K + $60K - $13.3K) = 75%). As a result of the 75% rule, now $23.3K must be repaid.

Check: $140K ÷ 75% = $186.7K
$186.7K - $140K = $46.7K cap on non-payroll costs

Unlike other limitations discussed, there is no chance to cure this defect.

Step 6: The Last Math

Forgiveness is the lesser of:

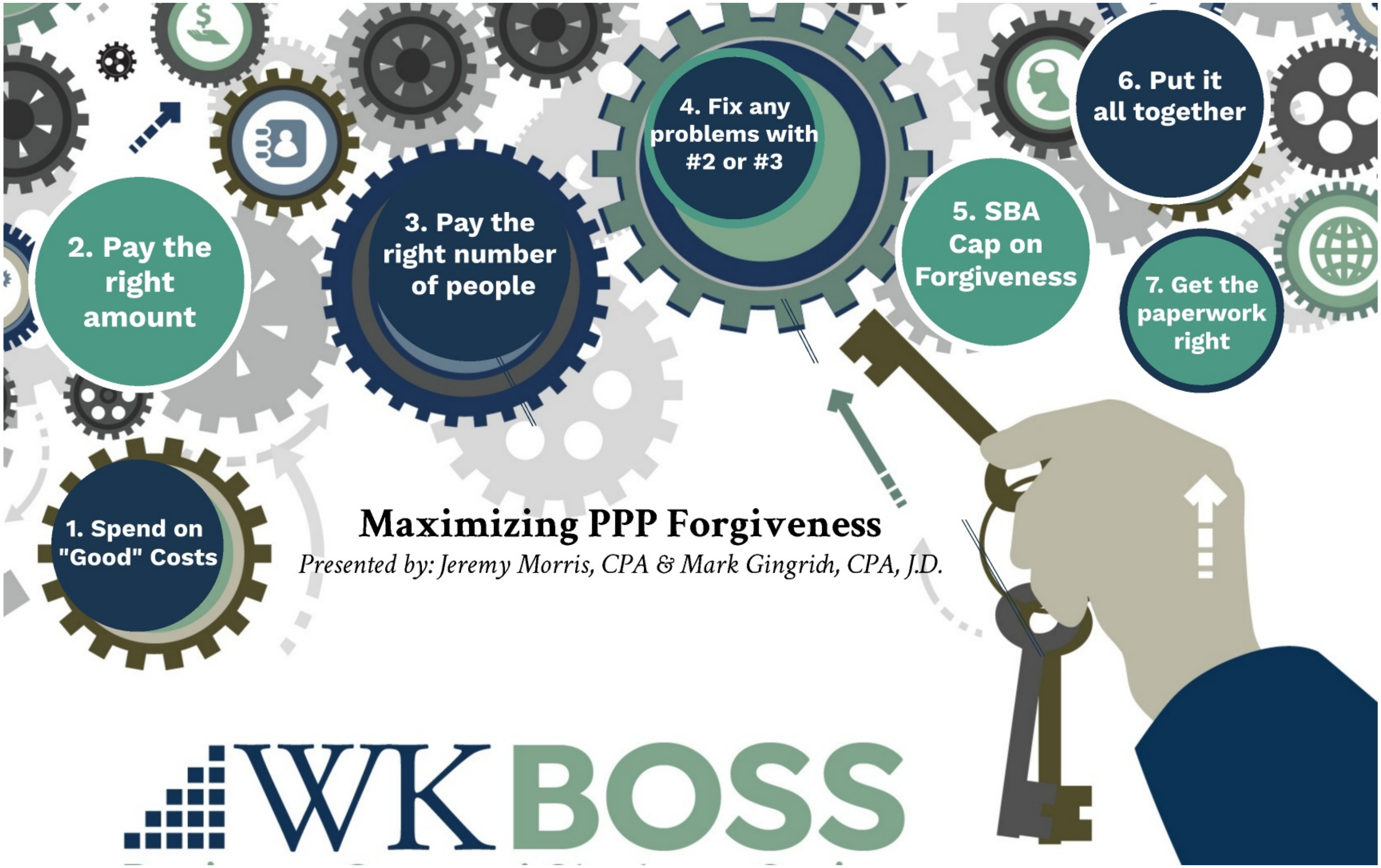
(a) Loan amount
(b) Total Good Costs, reduced by Steps #2 and #3 but only if not cured in Step #4
(c) Payroll costs ÷ 75%

Example

Example

Loan	$ 210,000	
Good Costs:		
Payroll	$ 140,000	
Non-payroll	60,000	
Total good costs	$ 200,000	
Less: FTE Reduction	(20,000)	
Less: Wage Reduction	-	
Modified total good costs	$ 180,000	
Forgiveness:		
Modified total	$ 180,000	
Loan	210,000	smallest = **$ 180,000**
Payroll cost limit	186,667	


Step 7:
Get the paperwork right
Complete the forgiveness application and supporting schedules
Gather supporting documentation
Follow your bank's checklist in addition to the documents listed in the forgiveness application



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