

# Loan Forgiveness Rules (Subject to Change Based on Awaiting Guidance from the SBA)



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## Guidelines Regarding Loan Forgiveness

- Guidelines issued in the SBA Interim Final Regulations that were put into effect on April 2, 2020
  - Guidance stated that there would be additional guidance given in regards to loan forgiveness.
  - As of date of webinar there is still no additional guidance.
- Can be up to the full principal amount of the loan and any accrued interest.
  - Note: Assumption is that we will need to use all the loan proceeds.



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## Guidelines Regarding Loan Forgiveness Continued

- Borrower must use the loan proceeds for payroll costs, payments of interest on mortgage obligations, rent payments and utilities.
- Employee and compensation levels must be maintained.
- We expect scrutiny on back-end compliance to be much more involved.

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## Expected Loan Forgiveness Amount

- The Sum of all forgivable costs (payroll, interest, rent & utilities) incurred within the eight-week period following the date of the loan.
- Payroll costs includes
  - Wages, bonuses, tips
  - Remember prorated amount equal to no more than \$100k per employee ( $\$100k/52 \times 8 = \$15,385$ )
  - Health care costs
  - Contributions to retirement plans
  - State unemployment



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## Open Questions on Forgiveness Amount

- Interest – What all can this include? Mortgage only? Equipment loans?
- Retirement – Can match/profit sharing be front loaded?
- Related party costs – Hire family members? Increase rents?
- Must “utilities” be provided by a public utility company, an organization that maintains infrastructure for a public service and are subject to regulation?
  - If no, can internet, cell phones, TV cable, trash collection, etc. be counted in addition to electric, water, gas and sewer?

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## Open Questions on Forgiveness Amount Continued

- Statute states “costs incurred and payments made” during the covered period are eligible for forgiveness. How “costs incurred” should be applied?
- Is loan tax free? Act says yes, but there is a question as normal IRS rules don't allow deductibility of expenses paid with tax-free money.

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## Three Main Reduction Provisions

- 75/25 Provision
- Full Time Equivalent (FTE) Provision
- Employee Salary and Wage Provision

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## 75/25 Rule

- At least 75% of Total Forgivable Expenses Must be Spent on Payroll

Total Loan Amount:		\$150,000
		% of Total Loan Amount
Included Payroll Costs	\$120,000	80.00%
Utilities	\$10,000	6.67%
Rent	\$20,000	13.33%
Meets Requirement		

Total Loan Amount:		\$150,000
		% of Total Loan Amount
Included Payroll Costs	\$100,000	66.67%
Utilities	\$15,000	10.00%
Rent	\$35,000	23.33%
Does Not Meet Requirement		

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## Full Time Equivalent (FTE) Requirement

- 8 Week Period Average FTE divided by:

**Option 1:** Average # of FTEs per month from Feb. 15, 2019 to June 30, 2019

**Option 2:** Average # of FTEs per month from Jan. 1, 2020 to Feb. 29, 2020

- Goal is to be at or above 1 after calculation
  - 1 or above = no reduction in forgiveness amount

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## 25% Reduction in Wages Requirement

- Calculated per employee

Employee Name	2019 Annual Compensation	Excluded Due to Compensation over \$100K or Reduction is Less than 25%	YTD Gross Wages Earned as of March 31 (1/1/20 - 3/31/20)	YTD Gross Wages Earned as of Date of Loan Disbursement (1/1/20 - X/XX/20)	YTD Gross Wages Earned as of End of 8 Week Period (1/1/20 - X/XX/20)	Amount Earned During Covered Period	% Reduction on Lookback period	Max % of Allowed Reduction	Reduction Amount
Employee 1	\$65,000.00		\$10,000.00	\$11,000.00	\$17,000.00	\$6,000.00	-40%	25%	(\$1,500.00)
Employee 2	\$325,000.00	X	\$50,000.00	\$60,000.00	\$80,000.00	\$20,000.00	-60%	25%	
Employee 3	\$97,500.00	X	\$15,000.00	\$18,000.00	\$32,000.00	\$14,000.00	-7%	25%	
Totals	\$487,500.00		\$75,000.00	\$89,000.00	\$129,000.00	\$40,000.00			(\$1,500.00)

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## Baldwin Forgiveness Calculator

- Based on guidance set forth in Interim Final Regulations
  - Subject to change once additional guidance is provided



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## Key Takeaways

- Spend entire amount of loan proceed
- Make sure at least 75% of the loan proceeds are spent on payroll costs
- Complete FTE assessment
- Complete wage reduction assessment



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## Contact Us

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