

CEF's BAS advisors provide helpful suggestions of an educational nature that are not intended to mandate or supersede the business practices or decisions of the Company, its owners or managers.

PPP Forgiveness Summary

Note: Forgiveness can be provided, for up to the full amount of the PPP loan plus accrued interest, if the funds are spent, as outlined below. Forgiveness has three main components: **Payroll and Benefits, Wage Reduction, and Full Time Equivalents (FTE's)**.

1. **Your PPP loan money can only be spent on the following during the 8 week period:**
 - a. Payroll costs including W-2 wages and tips, up to a max of \$100,000 per annualized employee pay (maximum of \$15,385 for an 8 week period).
 - b. Employee Benefits for employer paid business group health, retirement contributions, and employer paid state and local taxes (e.g. employer paid occupational privilege tax and Colorado UTR unemployment taxes).
 - c. Owner Compensation Replacement : For a **Schedule C Filer**, an amount equal to or less than the fraction $8/52$ times the 2019 Schedule C line 31 net profit (maximum of \$15,385 for an 8 week period). Note: Schedule C Filers with no employees will probably not receive full forgiveness due to the mathematical failure to reach the 75% required threshold. For an **1120 S or 1120 filer**, an amount equal to the fraction $8/52$ times the owner- shareholder 2019 reported W-2 wages (again, a maximum of \$15,385 per owner-employee applies).
 - d. Mortgage Interest Payments for real or personal business property, incurred before February 15, 2020. Cannot prepay.
 - e. Business Rent for Leases that were in effect prior to February 15, 2020. Cannot prepay.
 - f. Business Utility Payments (Gas, electric, water) related to business leases in effect prior to February 15, 2020. Cannot prepay.

2. Some Key Forgiveness Provisions/ Requirements for Employers:

- a. **“Payroll and Benefits Rule”**: During the 8 week period, you must spend **at least 75% of your PPP loan amount on payroll costs and employee benefits for full forgiveness**. This may also include owner compensation replacement as per **1c** above. This includes payroll costs that are paid during the “Covered Period.”

And for administrative convenience, Borrowers with a biweekly or more frequent payroll schedule may elect to calculate payroll costs using the 8 week/56 day period which begins on the first day of their first pay period following their PPP Loan Disbursement Date. This is referred to as the “Alternative Payroll Covered Period.” Borrowers choosing to use this Alternative Payroll Covered Period must then continue to use it consistently, for Wage Reduction and FTE forgiveness computations (see below) and in general wherever there is a reference in the application to the “Covered Period or the Alternative Payroll Covered Period.” However Borrowers must use the Covered Period only where there is only a reference to it and not also to the Alternative Payroll Covered Period.

Finally, “payroll costs incurred during the borrower’s last pay period of the covered period or the alternative payroll covered period are eligible for forgiveness if paid on or before the next regular payroll date; otherwise, payroll costs must be paid during the covered period (or alternative payroll covered period) to be eligible for forgiveness.”

- b. **“Wage Reduction Rule”**: A borrower’s loan forgiveness will be reduced if an employee’s average annual salary or hourly wage during the initial 8 week period (or, if chosen, the Alternative Payroll Covered Period) is less than 75% of the average compensation that was in effect between Jan 1 – March 31, 2020. This is on an employee by employee basis. The employee wages paid or incurred are examined during the period from Feb 15 – April 26, 2020, for this purpose.

You must have paid each of your employees, during the initial 8 week Covered Period (or during an Alternative Payroll Covered Period), average salary or wages which were equal to at least 75% of the employee base wages in effect during the Jan 1 – March 31, 2020 calendar quarter. Otherwise there will be a reduction in your loan forgiveness.

Finally, to ensure that borrowers are not doubly penalized, the salary/wage reduction *applies only to the portion of the decline in employee salary and wages that is not attributable to the FTE reduction*.

Safe Harbor: If by no later than June 30, 2020, each reduced employee's average annual salary or wage is restored to at or above where it was on February 15, 2020, there won't be a reduction penalty. And if you closed your PPP loan later, so as to have your 8 weeks go beyond the Feb 15 – April 26, 2020 examination time frame, you will also need this safe harbor.

- c. **FTE Rule**": You are required to maintain the same average # of FTE's during the 8 week period, as you had between either February 15, 2019 – June 30, 2019 or from January 1, 2020 – February 29, 2020. It is your choice as to which reference period to use. For seasonal employers, you can choose any 12 week period from May 1 – September 15, 2019 or you may select either of the above two reference period options just mentioned.

An FTE is 40 hours a week and anything less than 40 hours in a week is calculated as the numbers of hours worked divided by 40. And if the number of hours worked is less than 40, you can instead choose to simply use the decimal .5 (1/2), at your option, if that works to your benefit. You will be subject to an FTE reduction penalty if your total employee FTE levels were reduced during the period from Feb 15 – April 26, 2020, as compared to the reference period above which you selected.

Exceptions to the FTE Reduction Penalty:

- If you made a good faith attempt to rehire an employee during the covered 8 week period but the employee rejected the offer.
- If you fired the employee for cause.
- If the employee voluntarily resigned.
- If the employee voluntarily requested and received a reduction in their hours.

Note: These former employees may be included in your FTE average, if you have not filled the position (s) with a new employee (s).

Safe Harbor:

- **You did in fact reduce your FTE employee level during the examination period of from Feb 15 – April 26, 2020 but then you:**
 - **Restored your FTE employee level, by no later than June 30, 2020 to the FTE employee level that you had during the pay period which included February 15, 2020.**
- d. **25% or Less of PPP Loan Money for Eligible Non-payroll Costs:** If you spend at least 75% (or more) of your PPP loan during the covered period on payroll and benefits as per 1 a, b, & c and 2 a above, you can spend the rest of the PPP loan on mortgage interest payments, business rent/leases, and utilities as per # 1 d, e, and f above, during the 8 week period. These eligible non-payroll costs must be paid during the initial 8 week period or, if incurred during that time, must be paid on or before the next regular billing date.
- e. **Note - Eligible Non-payroll Costs cannot exceed 25% of the total loan forgiveness amount** (i.e. prior to any Wage Reduction or FTE penalties being assessed): So, not all of the up to 25% (see 2d above) spent on eligible non-payroll costs, may be forgiven, if the necessary forgiveness threshold is not met for the required payroll spending.
3. **Documentation to submit with Application or to have available if asked for:**
- a. **Payroll:** Documentation verifying payroll and benefit payments for the Covered Period or Alternative Payroll Covered Period including:
- Bank statements or third party payroll service reports (e.g. payroll registers)
 - Tax forms for those periods that overlap either the covered payroll period or alternative payroll covered period. This includes payroll tax filings to the IRS and state and quarterly wage reporting and unemployment insurance filings.
 - Payment receipts, paid checks, and statements which document employer contributions to employee health insurance and retirement plans.
- b. **FTE:** Documentation proving the average FTE employees that were on your payroll during the reference period (see 2 c above) which you selected. This could include payroll tax filings reported to the IRS and state and quarterly

wage reporting and unemployment insurance tax filings. Also documentation regarding job offers and refusals, firings for cause, voluntary resignations, written requests by employees for reductions in work schedule, etc. *It is also recommended that you report in writing, to the state unemployment office, the names of those employees who were offered re-employment, rehiring, full time hours, etc., but who refused or declined your employment offer.*

- c. **Eligible Non-Payroll Costs (# 1 d-f above):** Any and all documentation such as billing statements, paid checks, bank statements, lender amortization schedule, copy of current leases, utility invoices, etc. which verify the existence of these obligations and/or services prior to February 15, 2020 and which provide proof that you paid them during the Covered Period (or Alternative Payroll Covered Period) or incurred them during the 8 week Covered Period and did pay them on or before the next regular billing date.
 - d. **Document Records:** Be sure to maintain all records related to the PPP loan in your files for a period of 6 years after the date of your loan being either forgiven or repaid in full. You agree to permit authorized representatives of the SBA to access these files if requested to do so.
4. **PPP Loan (or portion thereof) which is not forgiven:** The result is a 24 month loan at 1% interest with the first 6 months' payments being deferred.
 5. **EIDL and PPP Loan Forgiveness:** Proceeds from any EIDL advance up to \$10,000 will be deducted from the loan forgiveness amount on your PPP loan.
 6. **Lender Forgiveness Application Deadline:** CEF has 60 days from the date of receipt of the forgiveness application to make a determination regarding forgiveness.