



PPP Loan Forgiveness Application: Lines 1-4

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Introduction

A common misconception among PPP loan borrowers is that payroll and nonpayroll costs reported on lines 1-4 on the PPP forgiveness application are limited to the amount of the PPP loan received by the borrower. In actuality, payroll and nonpayroll costs included on the application (“allowable expenses”) can include all eligible costs paid or incurred during the covered period (or alternative covered period) and can exceed the amount of loan proceeds received. It is the loan forgiveness amount that is limited to the PPP loan proceeds received (the loan forgiveness amount is limited to the lesser of lines 8, 9, and 10 of the application). Thus, it isn’t until AFTER the Salary/Wage and FTE reductions are applied to the allowable expenses that the forgiveness amount becomes limited. Following are three scenarios to illustrate how this concept could be applied.

Scenario 1

LOAN DETAILS	
Loan Proceeds	\$ 400,000
Wage/Salary Cutback	\$ 28,000
FTE Reduction Quotient	90%
Allowable Expenses	
Payroll Costs	\$ 383,000
Business Mortgage Interest Payments	\$ 15,000
Rent or Lease Payments	\$ 78,000
Utility Payments	\$ 42,000
Total	\$ 518,000

Based on the above loan details, the loan application would be completed as follows:

LOAN FORGIVENESS APPLICATION		
Payroll and Non Payroll Costs		
Line 1.	Payroll Costs (enter the amount from PPP Schedule A, Line 10):	\$ 383,000
Line 2.	Enter Business Mortgage Interest Payments:	\$ 15,000
Line 3.	Enter Business Rent or Lease Payments:	\$ 78,000
Line 4.	Enter Business Utility Payments:	\$ 42,000
Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions		
Line 5.	Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	\$ 28,000
Line 6.	Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5.	\$ 490,000
Line 7.	FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	90%
Potential Forgiveness Amounts		
Line 8.	Modified Total (multiply line 6 by line 7):	\$ 441,000
Line 9.	PPP Loan Amount	\$ 400,000
Line 10.	Payroll Costs 60% Requirement (divide line 1 by 0.60).	\$ 638,333
Forgiveness Amount		
Line 11.	Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	\$ 400,000

Even though the borrower has \$77,000 in total cutbacks (\$518,000 in allowable uses - \$441,000 modified total), it can apply for loan forgiveness of \$400,000 because allowable expenses exceed loan proceeds by more than total cutbacks. In other words, 100% loan forgiveness can be requested. As noted above, in no situation can loan forgiveness exceed loan proceeds. This is emphasized on line 11 to the application where a borrower is directed to enter the smallest of lines 8 – 10.

Scenario 2

LOAN DETAILS	
Loan Proceeds	\$ 650,000
Wage/Salary Cutback	\$ 12,000
FTE Reduction Quotient	72%
Allowable Expenses	
Payroll Costs	\$ 519,000
Business Mortgage Interest Payments	\$ 67,000
Rent or Lease Payments	\$ 31,000
Utility Payments	\$ 84,000
Total	\$ 701,000

Based on the above loan details, the loan application would be completed as follows:

LOAN FORGIVENESS APPLICATION		
Payroll and Non Payroll Costs		
Line 1.	Payroll Costs (enter the amount from PPP Schedule A, Line 10):	\$ 519,000
Line 2.	Enter Business Mortgage Interest Payments:	\$ 67,000
Line 3.	Enter Business Rent or Lease Payments:	\$ 31,000
Line 4.	Enter Business Utility Payments:	\$ 84,000
Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions		
Line 5.	Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	\$ 12,000
Line 6.	Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5.	\$ 689,000
Line 7.	FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	72%
Potential Forgiveness Amounts		
Line 8.	Modified Total (multiply line 6 by line 7):	\$ 496,080
Line 9.	PPP Loan Amount	\$ 650,000
Line 10.	Payroll Costs 60% Requirement (divide line 1 by 0.60).	\$ 865,000
Forgiveness Amount		
Line 11.	Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	\$ 496,080

Total cutbacks in this scenario are \$204,920. While the borrower’s allowable expenses exceed loan proceeds by \$51,000, the impact of the cutbacks are significant enough that total loan forgiveness is limited to \$496,080 (the smallest of lines 8-10).

Scenario 3

LOAN DETAILS	
Loan Proceeds	\$ 1,175,000
Wage/Salary Cutback	\$ 18,000
FTE Reduction Quotient	98%
Allowable Expenses	
Payroll Costs	\$ 659,000
Business Mortgage Interest Payments	\$ -
Rent or Lease Payments	\$ 283,000
Utility Payments	\$ 342,000
Total	\$ 1,284,000

Based on the above loan details, the loan application would be completed as follows:

LOAN FORGIVENESS APPLICATION		
Payroll and Non Payroll Costs		
Line 1.	Payroll Costs (enter the amount from PPP Schedule A, Line 10):	\$ 659,000
Line 2.	Enter Business Mortgage Interest Payments:	\$ -
Line 3.	Enter Business Rent or Lease Payments:	\$ 283,000
Line 4.	Enter Business Utility Payments:	\$ 342,000
Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions		
Line 5.	Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	\$ 18,000
Line 6.	Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5.	\$ 1,266,000
Line 7.	FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	98%
Potential Forgiveness Amounts		
Line 8.	Modified Total (multiply line 6 by line 7):	\$ 1,240,680
Line 9.	PPP Loan Amount	\$ 1,175,000
Line 10.	Payroll Costs 60% Requirement (divide line 1 by 0.60).	\$ 1,098,333
Forgiveness Amount		
Line 11.	Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	\$ 1,098,333

Allowable expenses exceed loan proceeds by \$109,000 and total cutbacks are minimal at \$43,320, but the borrower is still limited to \$1,098,333 of loan forgiveness. This is because payroll costs as a percent of the modified total were approximately 53%, and borrowers are required to spend at least 60% of their forgivable amount on payroll related expenses. To apply this rule, loan forgiveness is limited to total payroll costs of \$659,000 divided by 60%, or \$1,098,333 (the smallest of lines 8-10).

Concluding Thoughts

The PPP Flexibility Act extended the length of the covered period to 24 weeks while allowing borrowers who received PPP loans before June 5, 2020, to choose between either the 8-week and 24-week periods. The above scenarios are applied to either period, but electing the 24-week period can allow the borrower more flexibility to accumulate allowable expenses and offset any potential salary/wage and/or FTE cutbacks that would otherwise impact their forgiveness amount. NOTE – while electing a 24-week forgiveness period does allow the borrower to accumulate additional allowable expenses, it also extends the salary/wage and FTE cutback periods that also impact forgiveness, so borrowers should carefully evaluate the best covered period for their situation.

In either scenario (electing an 8-week or 24-week forgiveness period), borrowers can include all eligible costs paid or incurred during their covered period to help mitigate the impact that salary/wage or FTE reductions have on the overall loan amount eligible for forgiveness.

This memo is for general guidance only. This memo is based on the law in effect as of the date of the memo. There are many unanswered questions regarding the loan forgiveness calculation. Wipfli LLP does not undertake any obligation to update the memo for subsequent changes to the law.