



QUESTCO

COVID-19 News & Updates

Our webinar will begin promptly at 2 PM CST

- Please keep video off and remain muted to preserve bandwidth and connectivity for all.
- Call quality is best using telephone audio rather than computer audio.
- To ask a question, you'll need to locate and use the Chat feature at the bottom right of the Zoom window.
- Please continue to reach out to your Client Success Manager (CSM) with additional questions.

Thank you for joining us!

COVID-19: Financial Relief Program Update

Speakers:

- *Wendy Katz, CFO Questco*
- *Brandon Hartsaw, COO Questco*

Agenda:

- Paycheck Protection Program Loan Forgiveness
 - New SBA/Treasury Guidance
 - Revised Loan Forgiveness Application
 - Newly Issued Simplified “EZ” Loan Forgiveness Application
- Evolving Reporting Enhancements
- Q & A

June 26, 2020

New SBA/Treasury Guidance

June 26, 2020

Over the last several weeks, the SBA in conjunction with the Department of Treasury has issued additional revised or new applications and instructions as well as additional Interim Final Rules ("IFRs")

- 1 Revised or New Applications and Instructions
 - Revised PPP loan forgiveness application (6/17)
 - New simplified "EZ" forgiveness loan application (6/17)

- 2 Additional IFRs
 - Revisions to First Interim Final Rule (6/10)
 - New IFR addressing change re: ownership by individuals convicted of felonies (6/12)
 - Revisions to Third and Sixth Interim Final Rules (6/17)
 - Revisions to Loan Forgiveness Interim Final Rule (6/22)
 - SBA Loan Review Procedures Interim Final Rule (6/22)

Deadline to Apply for PPP Loan

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

June 26, 2020

The new rules confirm that June 30, 2020 remains the last date on which a PPP loan application can be approved.

Extension of Loan Forgiveness Period

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

June 26, 2020

The Paycheck Protection Program Flexibility Act (PPPFA) expands the forgiveness covered period until the earlier of:

- 1) The date that is 24 weeks after the date the loan was originated (or the Alternative Payroll Period)
or
- 2) December 31, 2020

- 1 A borrower that received a loan before the PPPFA was enacted can elect to have the prior rule apply (i.e., the covered period ends 8 weeks after the date the loan originated)
- 2 **New Guidance**
 - Indicates that borrower must utilize the 24-week covered period (unless eligible to elect, and does elect, the 8-week period)
 - Borrower **does not** have to wait to seek forgiveness until after close of loan forgiveness period (8 or 24 weeks) and may seek forgiveness once it has used the full amount of the loan proceeds
 - If the borrower applies for forgiveness before the end of the covered period and has reduced any employee's salaries or wages in excess of 25 percent, the borrower **must** account for the excess salary reduction for the **full** 8-week or 24-week covered period

Applying for Loan Forgiveness Before Covered Period Ends

Future legislation changes could impact this information.
Please continue to monitor updates from Questco.

June 26, 2020

Example: Joe's Hardware applies for and receives a PPP loan, with a 24-week loan forgiveness period.

- ➔ Joe's Hardware reduced a full-time employee's weekly salary from \$1,000 per week during the look back period to \$700 per week during the covered period. The employee continued to work on a full-time basis during the covered period and was counted for as FTE of 1.0.
- ➔ The first \$250 (25% of \$1,000) is disregarded for purposes of calculating the salary/hourly wage reduction (i.e., no loan forgiveness reduction).
- ➔ Joe's Hardware uses all of its loan proceeds after week 14. Under the new guidance, Joe's Hardware is permitted to file for forgiveness once it uses all of its PPP loan proceeds.
- ➔ HOWEVER, Joe's Hardware is required to list \$1,200 as the salary/hourly wage reduction for that employee (i.e., the \$50 reduction in excess of the 25% reduction, multiplied by the **full 24 weeks** = \$1,200).
- ➔ Effectively, the guidance allows the borrower (i.e., Joe's Hardware) to apply for forgiveness once the PPP loan proceeds have been used; BUT the borrower is somewhat penalized because the guidance requires the borrower to assume the salary / hourly wage reduction applies for the entire 24-week period. The guidance does not address what would happen to the 24-week projection if additional wage reductions are made after the loan application is submitted but before the 24-week covered period ends (and before confirmation of loan forgiveness). Does the borrower have an obligation to inform their lender??

FTE Reduction Safe Harbor Expansion

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

June 26, 2020

The PPPFA effectively gives the borrower until December 31, 2020 to restore FTE headcount irrespective of which covered period the borrower elects (i.e., 8 weeks or 24 weeks) for purposes of restoring reductions to FTE during the covered period to avoid a reduction in loan proceeds eligible for forgiveness.

1 New Guidance

- Revised Loan Forgiveness application suggests that FTE count “as of date [loan forgiveness] application is submitted” can be used (i.e., borrowers don’t need to wait until the end of the year)
- Provides greater flexibility as to when you need to restore headcount and presumably for how long you need to maintain that headcount
- Restoration of FTE count is based on average FTE on the date the loan application is submitted but no later than December 31, 2020 (point in time)

Salary/Hourly Wage Reduction Safe Harbor Expansion

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

June 26, 2020

The PPPFA effectively gives the borrower until December 31, 2020 to restore salary / hourly wages irrespective of which covered period the borrower elects (i.e., 8 weeks or 24 weeks) for purposes of restoring reductions to wages during covered period to avoid a reduction in loan proceeds eligible for forgiveness.

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New Guidance

- Revised Loan Forgiveness application suggests that salary/hourly wage “as of date [loan forgiveness] application is submitted” can be used (i.e., borrowers don’t need to wait until the end of the year)
- Provides greater flexibility as to when you need to restore to pre-COVID salary/hourly wage

New FTE Reduction Factor Exception / Safe Harbor

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

June 26, 2020

The PPPFA allows borrowers to avoid reduction to the eligible loan forgiveness amount due to a reduction in FTE if the borrower, in good faith:

a. Is able to document

- 1) Inability to rehire individuals who were employees of the borrower on February 15, 2020 and
- 2) Inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020

[FTE Reduction Factor Exception]

or

- b. Is able to document an inability to return to the same level of business activity as such business was operating at before February 15, 2020, due to requirements/guidance relating to COVID issued by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration during the period beginning March 1, 2020 and ending December 31, 2020

[FTE Reduction Safe Harbor]

New FTE Reduction Factor Exception

Future legislative changes could impact this information.
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June 26, 2020

New Guidance

- 1 SBA/Treasury regulatory exception still applies (with slight modifications):
 - If borrower makes a good faith, written offer to restore the reduced hours of an employee (for same salary/wages and number of hours in the last pay period prior to reduction of hours), employee rejects the offer, and borrower maintains records documenting offer/rejection, employee won't count against the FTE reduction factor.
- 2 If using the new PPPFA FTE Reduction Factor Exception, the recently issued guidance suggests that the borrower is required to inform the applicable state UI office of any employee's rejected rehire offer within 30 days of the rejection
- 3 Borrowers should maintain records of written offer to rehire, written record of rejection, written record of efforts to hire similarly qualified individuals
- 4 Revised Loan Forgiveness Application also suggests that "decreased level of business activity" can also be measured as of forgiveness application date

“Inability to Return to the Same Level of Business Activity”

Future legislative changes could impact this information.
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June 26, 2020

Example: Sally's Beauty Supply sells beauty products, both online and in a retail store. During their covered period, local government ordered all non-essential businesses (including Sally's Beauty Supply's retail store) to shut down, based on COVID-19 guidance issued by the CDC in March 2020.



Sally's Beauty Supply's business activity during the covered period was reduced when compared to its activity before February 15, 2020 as a result of a government ordered shut down.



As a result, Sally's Beauty Supply will **not** have its forgiveness reduced because of a reduction in FTEs during the covered period **if Sally's Beauty Supply maintains records regarding (1) the local government's shutdown orders, and (2) the related reduction in its business activity.**

- Note: The SBA is interpreting this rule to “include both direct and indirect compliance with COVID requirements or guidance, because a significant amount of the reduction in business activity stemming from COVID requirements or guidance is the result of state and local government shutdown orders that are based in part on guidance from the three federal agencies.”

Administration of \$100k Cash Comp Limit

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

June 26, 2020

The CARES Act allows for a pro rata share of up to \$100k of annualized cash compensation to be considered when determining the amount of eligible payroll costs for forgiveness

- 1 The PPPFA extends the loan forgiveness covered period from 8-weeks to the earlier of December 31, 2020 or the close of 24-weeks after the loan origination
- 2 **New Guidance**
 - For employees during an 8-week covered period, that cap is \$15,385
 - For **owners** during an 8-week covered period, that cap is the lower of \$15,385 or the 8-week equivalent of 2019 compensation
 - For employees during a 24-week Covered Period, that cap is \$46,154
 - For **owners** during a 24-week Covered Period, that cap is the lower of **\$20,833** or the 2.5 month equivalent of 2019 compensation
 - The guidance does not address the salary cap computation if the loan forgiveness application is submitted before the end of the 24-week covered period

More Guidance Regarding Owner Compensation

Future legislative changes could impact this information.
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June 26, 2020

- 1 Owner-employee / Self-employed individual's compensation for forgiveness purposes is generally capped at:
 - For 8-week covered period: lesser of 8 weeks of 2019 comp or \$15,385
 - For 24-week covered period: lesser of 2.5 months of 2019 comp or \$20,833
- 2 C-Corp owner-employees are capped by the amount of their 2019 employee cash compensation and employer retirement and health insurance contributions made on their behalf
- 3 S-Corp owner-employees are capped by the amount of their 2019 employee cash compensation and employer retirement contributions made on their behalf, but NOT employer health insurance contributions made (those are already included in cash comp)
- 4 Schedule C or F filers are capped by the amount of owner compensation replacement, calculated based on 2019 net profit
- 5 General partners are capped by amount of 2019 net earnings from self-employment (reduced by Section 179 deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235

Extension of Loan Deferral Period

Future legislative changes could impact this information.
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June 26, 2020

The CARES Act allows for deferral of payment, interest and fees for not less than 6 months, and no more than 12 months

- 1 The PPPFA requires lenders to allow for deferral until the date on which the amount of the loan forgiveness is remitted to the lender by the SBA
- 2 **New Guidance**
 - After the loan forgiveness application is filed, the lender is responsible for notifying the borrower of remittance by SBA of the loan forgiveness amount (or that SBA determined that no amount of the loan is eligible for forgiveness) and the date on which the borrower's first payment is due, if applicable.
 - If the borrower does not apply for loan forgiveness within 10 months after the last day of the covered period, the PPP loan is no longer deferred, and the borrower must begin paying principal and interest. If this occurs, the lender must notify the borrower of the date the first payment is due.

New Loan Forgiveness Application “EZ”

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

June 26, 2020

On June 17, 2020, the SBA in consultation with the Department of Treasury published a new three-page “EZ” version of the Paycheck Protection Program (PPP) Loan Forgiveness Application.

- 1 Generally allows borrowers in one of three categories to avoid having to list employees, individual employee compensation, calculate “FTE scores”, etc. on the loan forgiveness application
- 2 Can be used by the following borrowers:
 - Self-employed individuals, independent contractors, or sole proprietors with **no** employees when they applied for PPP loan and did **not** include employee salaries in monthly payroll when they applied for PPP loan
 - Employers that did **not** reduce salaries/hourly wages by 25% for employees who made less than \$100,000 during the covered period, **AND** did **not** reduce number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period
 - Employers that did **not** reduce salaries/hourly wages by 25% for employees who made less than \$100,000 during the Covered Period, **AND** were **unable** to operate during the Covered Period at the same level of business activity as before February 15, 2020 due to COVID-19
- 3 Borrower will certify the accuracy of the information submitted on the loan forgiveness application and must retain all supporting documentation to demonstrate that assertions are substantiated

Evolving Reporting Enhancements

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June 26, 2020

➔ FTE Reporting

- FTE report that compares FTE count during covered period to FTE count during measurement period (2/15/19 - 6/30/19 or 1/1/20 - 2/29/20)
- Designed to measure FTE count at **end of 8-week or 24-week period** to compute ratio (will provide indication of FTE count during each completed payroll period during 8-week covered period)
- Additional design changes required to account for loan forgiveness period expansion and adjustments to the PPP loan forgiveness application
- Instructions on how clients can pull the report themselves to be issued during the week of July 6th

➔ Loan Forgiveness Calculation / Estimator Spreadsheet

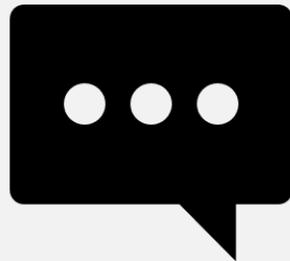
- Developing spreadsheet that can be used to prepare the loan forgiveness application
- Currently modifying to address guidance issued by Treasury/SBA regarding changes to the application following the enactment of PPPFA
- Will provide instructions referencing information available from reports generated out of PrismHR

➔ PPP Loan Forgiveness Tracking Report

- Loan tracking report being modified to track eligible payroll costs for 24-week covered period or alternative period / exclusion of owner-employee payroll costs

Questions

***Please remain muted and use the Chat feature.**



CONTACT US

Thank you!

As always, please reach out to your Client Success Manager with any additional questions.

 **By Phone:** +1-800-256-7823

 **Our Resource Page:** <https://info.questco.net/covid-19-resource-page>

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