

## Loan Forgiveness Reduction Calculation

---

**The amount forgiven would be reduced: (1) in proportion to any reduction of full-time equivalent employees retained compared to the prior year (most critical testing item), and (2) to the reduction in pay of any employee beyond 25% of their prior year compensation. Borrowers that rehire workers previously laid off or restore reduced wages by June 30, 2020 will not be penalized for having reduced payroll at the beginning of the period** - the meaning of this has not been clarified, but we believe it allows flexibility in modifying the loan forgiveness requirements to allow for use of PPP proceeds for qualified payroll and expenses beyond the original eight-week period commencing with the receipt of PPP loan proceeds currently in effect.

The borrower can choose the prior period from two options in the reduction calculation when comparing to their current (the period of 8 weeks from loan origination) full-time equivalent employees.

**A request must be made to the lender to be eligible for loan forgiveness and from that period, the lender has 60 days to review and approve the request.** You must provide proof of payment of mortgages, leases and utilities, as well as payroll tax filings to be eligible for loan forgiveness. Proof of payment can be in the form of bank statements or canceled checks.

We recommend that when the loan funds are received, you pay items in the following order:

- Payroll Costs (including taxes, health insurance, employer paid HSA contributions, and retirement benefits)
- Mortgage interest only (even if your bank is deferring it)
- Rent
- Utilities

The loan amount (2.5 times your monthly payroll cost) is intended to cover 8 weeks of payroll in addition to the above expenses, which are all eligible under the loan forgiveness provision. Using the loan funds for any other expenses will disallow those amounts from being forgiven. Accordingly, don't let the money burn a hole in your pocket and be creative in putting people to work sooner than later (currently, no later than 6/30/2020). You can always pay the loan back if proceeds aren't used.

While debt forgiveness is usually treated as income for tax purposes, **principal on 7(a) loans forgiven under this provision will not be considered income.**

However, the current IRS position is that the expenses paid with PPP funds that are forgiven are non-deductible on Federal tax returns. Congress has indicated that the IRS position is not consistent with their legislative intent. The IRS position is subject to change.

---

*Additional information available at our website in our COVID-19 business resource center:*

<http://www.conlonandcompany.com/covid-19-business.html>

---

**Examples Provided Below**



**Option I - FTE from 2/15/19 through 6/30/19**

**Option II - FTE from 1/1/20 through 2/29/20**

**FTE = Full-Time Equivalent Employee**

An employee that works 30 hours or more is 1 FTE. The aggregate hours of employees working under 30 hours a week that equal 30 are considered 1 FTE. You will need the number of hours worked for this calculation

**Example 1 - Borrower received a loan of \$90,800 which was used for total employee wages of \$86,800 (not including FICA taxes) and the remainder on rent, utilities, and debt obligations over an 8 week period. The borrower reduced employees from 10 FTE to 7 FTE on December 31, 2019.**

		OPTION I					
Loan Proceeds Used	\$90,800	X	7	FTE From Loan Origination to 8 Weeks Out	=	\$63,560	Potential Loan Forgiveness Amount
			10	FTE From 2/15/19 through 6/30/19			

**Borrower is not eligible for forgiveness on \$27,240 of loan due to FTE reductions.**

		OPTION II					
Loan Proceeds Used	\$90,800	X	7	FTE From Loan Origination to 8 Weeks Out	=	\$90,800	Potential Loan Forgiveness Amount
			7	FTE From 1/1/20 through 2/29/20			

**Borrower is eligible for total loan forgiveness due to no FTE reductions.**

**Example 2 - Borrower received a loan of \$90,800 which was used for total employee wages of \$86,800 (not including FICA taxes) and the remainder on rent, utilities, and debt obligations over an 8 week period. The borrower reduced employees from 10 FTE to 7 FTE on March 20, 2020**

		OPTION I					
Loan Proceeds Used	\$90,800	X	7	FTE From Loan Origination to 8 Weeks Out	=	\$63,560	Potential Loan Forgiveness Amount
			10	FTE From 2/15/19 through 6/30/19			

**Borrower is not eligible for forgiveness on \$27,240 of loan due to FTE reductions.**

		OPTION II					
Loan Proceeds Used	\$90,800	X	7	FTE From Loan Origination to 8 Weeks Out	=	\$63,560	Potential Loan Forgiveness Amount
			10	FTE From 1/1/20 through 2/29/20			

**Borrower is not eligible for forgiveness on \$27,240 of loan due to FTE reductions.**

**Example 3 - Borrower received a loan of \$70,000 which was used for total employee wages of \$63,560 (not including FICA taxes) and the remainder on rent, utilities, and debt obligations over an 8 week period. The borrower reduced employees from 10 FTE to 7 FTE on December 31, 2019. Employees wages were reduced by 30% on March 20, 2020 from \$90,800 combined to \$63,560**

		OPTION I					
Loan Proceeds Used	\$70,000	X	7	FTE From Loan Origination to 8 Weeks Out	=	\$49,000	- \$4,540
			10	FTE From 2/15/19 through 6/30/19			
Additional forgiveness reduction for wages reduced in excess of 25% (\$4,540)						\$44,460	Potential Loan Forgiveness Amount
<p style="text-align: center;"><b>Borrower is not eligible for forgiveness on \$25,540 of loan due to FTE and wage reductions.</b></p>							
		OPTION II					
Loan Proceeds Used	\$70,000	X	7	FTE From Loan Origination to 8 Weeks Out	=	\$70,000	- \$4,540
			7	FTE From 1/1/20 through 2/29/20			
Additional forgiveness reduction for wages reduced in excess of 25% (\$4,540)						\$65,460	Potential Loan Forgiveness Amount
<p style="text-align: center;"><b>Borrower is not eligible for forgiveness on \$4,540 of loan due to wage reductions.</b></p>							

Note: The amount of the PPP loan that can be forgiven is directly reduced by the amount of the EIDL advance grant you received, if applicable. This amount will need to be repaid even if the proceeds from the PPP loan and EIDL advance were used on unrelated qualifying expenses.