



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: PPP Loan Forgiveness Application

Speakers:

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

Agenda:

- Factors Impacting Forgivable Amounts
- Overview of Application Forms / Qualifications for Use
- SBA Procedural Notice: Change in Ownership Impact on PPP
- Uncertainty Certification for Loans Over \$2 MM
- Loan Forgiveness Timeline and Review Process
- Q&A

What Costs are Forgivable

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

November 6, 2020

REMEMBER: Both “Payroll Costs” and certain “Non-Payroll Costs” are forgivable, but for full forgiveness at least 60% of loan proceeds must have been spent on “Payroll Costs.”

November 6, 2020

What Costs are Forgivable?

Eligible "Payroll Costs"

- Compensation to employees as salary, wages, commissions
- Cash tips or the equivalent
- Payment for vacation, parental, family, medical, sick leave
- Separation/dismissal payments
- Payment for health and retirement benefits
- Payment of state and local taxes assessed on employee comp

But Not

- Payment to employees outside the USA
- Compensation in excess of an annual salary of \$100,000 (prorated)
- Federal employment taxes imposed or withheld
- Qualified sick and family leave wages under FFCRA

November 6, 2020

What Reduces the Forgivable Amount?

- 1 **A reduction in Full Time Equivalent (“FTE”) employees** during the Covered Period, relative to a “lookback period” prior to the loan
- 2 **A greater than 25% reduction in employee salary or hourly wages** during the Covered Period, relative to the period of January 1, 2020 – March 31, 2020
 - This only applies to employees making less than \$100,000 annualized
 - If you believe you reduced the annual salary or hourly wages more than 25%, you will need to notify Questco to prepare special wage reports to satisfy supplemental reporting requirements within the loan application

Determining Whether There Has Been an FTE Reduction

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

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Step 1

Borrower Calculates an "Average FTE Score" for each Employee during the Covered Period

- Calculate average number of hours paid per week, divide by 40
- A full-time employee scores a 1.0
- Alternative method - score employees who work 40 hours or more per week at 1.0; all employees who work fewer than 40 hours per week at 0.5

Step 2

Borrower Calculates an "Average FTE Score" for each Employee during a Lookback Period

- Same methodology for calculating Average FTE score
- The lookback period must be either February 15, 2019 to June 30, 2019 or January 1, 2020 through February 29, 2020

Step 3

Divide "Step 1" Number by "Step 2" Number

- *If quotient is less than 1.0, a reduction to borrower's payroll costs eligible for forgiveness may apply*

FTE Reduction Exceptions

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

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When performing the Step 1 calculation (average FTE Score for each employee included in the Covered Period), the Borrower can also include:

- 1 Positions for which the business made a good-faith, written offer to rehire someone who was an employee on February 15, 2020 and the business was unable to hire similarly qualified employees for unfilled positions before December 31, 2020
- 2 Positions for which the business made a good-faith, written offer to restore any reduction in hours, at same salary or wages, during the Covered Period and employee rejected the offer
- 3 Any employees fired for cause during the Covered Period
- 4 Any employees who voluntarily resigned during the Covered Period
- 5 Any employees who voluntarily requested and received a reduction in their hours

(Do not include anyone who falls into these categories if their position was filled by a new employee.)

*Note: This helps borrower "pass the test" described on the previous page **but does not guarantee** you pass the test.*

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If either of the following apply, then there is no reduction to loan forgiveness based on reduction in FTE employee levels

1. Borrower can document in good faith that it was unable to operate between February 15, 2020 and the end of the Covered Period at same level of business activity due to compliance with guidance issued by HHS/CDC/OSHA related to maintenance of standards for sanitation, social distancing, or other safety requirements related to COVID-19

-OR-

2. Borrower reduced its FTEs during the period between February 15, 2020 and April 26, 2020, and then restores its FTEs by no later than December 31, 2020 to the levels in its pay period that included February 15, 2020

Note: If either of the above apply, the borrower “passes” the FTE reduction “test” automatically!

Determining Whether A Salary/Wage Reduction Occurred

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

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- Step 1** → Identify all employees that made less than \$100,000 during the Covered Period
- Step 2** → For each employee identified in Step 1, compare average salary/wage during Covered Period with average salary/wage between January 1, 2020 and March 31, 2020. If salary/wage reduced by more than 25%, a salary/wage reduction has occurred - proceed to Step 3 to calculate the penalty
- Step 3** → Take 75% of the employee's salary/wage between January 1, 2020 and March 1, 2020 and subtract average salary/wage during Covered Period
- Step 4a** → For hourly workers, multiply amount from Step 3 by average hours worked between January 1, 2020 and March 31, 2020 and then multiply by number of weeks in Covered Period
- Step 4b** → For salaried workers, multiple amount from Step 3 by number of weeks in Covered Period and then divide by 52
- Step 5** → The amounts from Step 4 (totaled) will be subtracted from the amount of forgivable payroll costs claimed by the borrower.

Determining Whether the Salary/Wage Reduction

Safe Harbor Applies

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

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- Step 1** → Take the employee's annual salary or hourly wage as of February 15, 2020
- Step 2** → Is the employee's average annual salary or hourly wage between February 15, 2020 and April 26, 2020 is less than the salary wage from Step 1?
- Step 3** → If the answer to Step 2 is "yes", then continue to Step 4. If the answer is "no", then the Safe Harbor does not apply
- Step 4** → Is the employee's average annual salary or hourly wage as of the earlier of December 31, 2020 or the date the forgiveness application is submitted is greater than the salary/hourly wage from Step 1?
- Step 5** → If the answer to Step 4 is "yes", then a Safe Harbor applies, and the employee is not considered to have a salary / hourly wage reduction (If the answer is "no", then the Safe Harbor does not apply)

Loan Forgiveness Application “EZ”

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

November 6, 2020

Released by Treasury / SBA on June 17, 2020

Generally allows borrowers in one of the three categories to avoid having to list employees, provide individual employee compensation, calculate “FTE scores”, complete Schedule A or Schedule A worksheet on loan forgiveness application

Can be used by borrowers that fall into one of the following three categories:

- 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
- Employees 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 the number of employees or the average paid hours of employees between **January 1, 2020 and the end of the Covered Period**
- Employees 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

New Loan Forgiveness Application 3508S

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

November 6, 2020

Released by Treasury / SBA on October 8, 2020

Can be used if the total PPP loan amount received by the borrower was \$50,000 or less

- However, if the borrower and its affiliates received PPP loans totaling \$2 million or more, cannot use this form even if the borrower's loan was < \$50,000

Rule issued at same time as application stating PPP borrowers of \$50,000 or less are exempt from any reductions in forgiveness based on:

- Reductions in FTE employees
- Reductions in employee salary or wages

November 6, 2020

SBA Procedural Notice: PPP Loans and Changes of Ownership

- Released by SBA on **October 2, 2020**
- “Change of Ownership” applies upon the occurrence of any of the following events:
 - ❑ At least 20 percent of the common stock or other ownership interest of a PPP borrower (including a publicly traded entity) is sold or otherwise transferred, in one or more transactions, including to an affiliate or an existing owner of the entity; **OR**
 - ❑ The PPP borrower sells or otherwise transfers at least 50 percent of its assets (measured by fair market value) in one or more transactions; **OR**
 - ❑ A PPP borrower is merged into another entity

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Prior to the closing of any change of ownership transaction, the PPP borrower must notify the PPP lender in writing of the contemplated transaction and provide the PPP lender with a copy of the proposed agreement or any other documents that would effectuate the proposed transaction.

➤ **IF**

- ❑ PPP loan has been paid back in full -OR-
- ❑ Borrower applied for forgiveness, and SBA has remitted funds to lender in satisfaction of the PPP note, or borrower has repaid any balance outstanding on loan

Then no restriction on change of ownership

- If PPP Loan has not been fully satisfied, SBA prior approval may be required for change in ownership

November 6, 2020

When is SBA approval not required?

- **For stock sale / merger or asset sale (50% or more of assets):**
 - ❑ Borrower completes forgiveness application reflecting use of all PPP loan proceeds and submits to lender, and interest-bearing escrow account controlled by lender is established with funds equaling balance of the PPP loan. (After forgiveness process is complete, escrow funds will be used to repay any PPP loan balance outstanding.)

- **For stock sale / merger only:**
 - ❑ If sale or transfer is 50% or less of common stock or other ownership interest of borrower

PPP Loans and Changes of Ownership

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

November 6, 2020

For all other “change of ownership” transactions, prior SBA approval is required

PPP Lender must submit a request for approval to the appropriate SBA Loan Servicing Center with the following information:

- Reason the PPP borrower cannot fully satisfy the PPP note or escrow funds
- Details of requested transaction
- Copy of the executed PPP note
- Any letter of intent and the purchase / sale agreement setting forth the responsibilities of the PPP borrower, seller and buyer
- Disclosure of whether buyer has an existing PPP loan and if so, the SBA loan number
- List of all owners of 20 percent or more of the purchasing entity

SBA will review and provide a determination within 60 calendar days of request for approval

SBA may require additional risk mitigation measures as a condition of its approval of the transaction

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ASSET SALE RULE: If sale of 50 percent or more of assets, purchaser will have to assume all of the PPP borrower's obligations under the PPP loan, and this must be reflected in the purchase / sale agreement or separate assumption agreement

STOCK SALE RULE: For all stock sales / transfers / mergers, the PPP borrower (or its successor) will remain subject to all obligations under the PPP loan, regardless of whether or not the transaction requires SBA approval

- PPP lender must notify the appropriate SBA Loan Servicing Center within 5 days of completion of transaction of new owners, ownership percentage and other
- If new owner uses PPP funds for unauthorized purposes, SBA will then have recourse against the owner for the unauthorized use
- If any of the new owners in case of purchase via stock sale has a separate PPP loan, the PPP borrower and the new owners must segregate PPP funds and provide documentation to demonstrate compliance by each borrower
- If successor following merger has a separate PPP loan, successor must similarly segregate PPP funds and expenses and document both loans respectively

Transactions consummated prior to issuance of SBA Procedural Notice

- Contact your lender immediately!

November 6, 2020

SBA Released PPP Loan Necessity Questionnaire on October 30, 2020

To be completed in connection with review of forgiveness application for all loans in excess of \$2.0 million

- Designed to assist in assessment of the necessity for the borrower to apply for a PPP loan
- Loan application process required borrower to certify their eligibility for a PPP loan due to the uncertainty of **current** economic conditions
- Necessity questionnaire requires information on the financial results subsequent to borrower's completion of the PPP loan application
- At question: Can the SBA retroactively apply the then un-known economic conditions that developed after the loan origination date in making a forgiveness determination

Limited payroll data requirements included in Loan Necessity Questionnaire

- Contact Questco if you need to complete the questionnaire

PPP Loan Forgiveness Timeline

Future legislative changes could impact this information.
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November 6, 2020

- ➔ **Borrower submits loan forgiveness application**
 - Borrowers can elect either an 8-week or 24-week covered period. PPP loan forgiveness applications can be submitted at any time during the 24-week covered period if the borrower has utilized the full amount of the loan proceeds funded.
 - Borrower can submit a loan forgiveness application any time on or before the maturity date of the PPP loan.

- ➔ **Lender has 60 Days from receipt of application to issue a decision to SBA**
 - If application is approved in whole or part, lender submits appropriate supporting information and request for payment to SBA
 - If lender determines borrower is not entitled to forgiveness in any amount, lender must notify borrower and SBA
 - Borrower then has 30 days to notify lender if it wants to request that SBA review lender's decision
 - If request is made, lender must advise SBA within 5 days of receipt
 - SBA will notify lender if it declines request for review; if it accepts request for review, SBA will notify both borrower and lender of its conclusions

- ➔ **SBA has 90 days to review lender's decision**
 - Certain SBA loan review decisions can be appealed to SBA's Office of Hearing and Appeals within 30 calendar days after earlier of (1) receipt of final SBA loan review decision or (2) notification by lender of final SBA loan review decision

PPP Loan Forgiveness Reporting Available

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- ➔ **PPP Loan Forgiveness Payroll Cost Report**
 - Provides eligible payroll costs for **selected covered period** grouped by Table 1, Table 2 and Owners
 - Can run Payroll Cost report for custom time period to account for loan forgiveness period duration between 8 and 24 weeks

- ➔ **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
 - Can run FTE report for custom time period to account for loan forgiveness period duration between 8 and 24 weeks and for safe harbor calculations, if required

- ➔ **Additional Supporting Documentation**
 - Headcount Report “as of” dates to show number of employees for **1/1/20** and **covered period end date** (EZ Form requirement)
 - Letter explaining PEO relationship to your lender (in lieu of tax forms / medical expense invoices)
 - Safe Harbor / Wage Reduction back-up
 - Miscellaneous lender requests

- ➔ **Loan Forgiveness Application Instructions**
 - Instructions on how to complete loan forgiveness applications (Form 35008, 3508EZ and 3508S), referencing information available from reports generated out of PrismHR

PPP Loan Forgiveness Reporting Requests

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➔ Information Required from Clients to Prepare Reports

- Loan Amount
- Loan Origination Date
- 8-Week or 24-Week Covered Period; if extended covered period requested, please provide loan end date
- Names of Non-Resident Aliens with US Addresses, if applicable
- Names of Owner-Employees, if applicable
- If Owner-Employees, provide organization type (C-Corp, S-Corp, LLC)

➔ PPP Loan Forgiveness Reporting Needs Requests

- Submit requests to Client Success Manager or Payroll Coordinator
- Loan forgiveness client support led by Lisa Kopecky (dedicated resource)

➔ Allow for 72 Hour Turn-Around when Requesting Initial Reports to Complete PPP Loan Forgiveness Application

August 14, 2020

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>

 **Location:** The Woodlands, TX 77380