3 Steps (and a Calculator) to Help Determine Forgiveness for Your PPP Loan

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The Paycheck Protection Program ("PPP") authorizes up to $349 billion in forgivable loans to small businesses to pay their employees during the COVID-19 crisis. The loan amounts will be forgiven in its entirety as long as: (i) the loan proceeds are used to cover payroll costs, most mortgage interest, rent, and utility costs over the eight-week period after the loan is made; (ii) employee headcount is maintained; (iii) compensation levels for employees earning less than $100,000 per year are maintained; and (iv) not more than 25% of the forgiveness amount is used for non-payroll costs. To the extent that any of these factors are not satisfied fully (or a business does not use the full amount of the PPP loan in the eight-week period after the loan is made), a portion of the loan will not be forgiven and must be repaid.

The forgiveness analysis of a PPP loan requires a three-step analysis based on the following three metrics: (i) Reduction in Headcount, (ii) Reduction in Wages, and (iii) Rehires, all of which are discussed in more detail below. Additionally, the PPP Loan Forgiveness Calculator enables a borrower to quantify this three-step process to analyze under what conditions such a loan can be forgiven and for what amount.

1. Reduction in Headcount

Multiply the amount of the loan which qualifies for forgiveness by the following fraction:

- Numerator: average number of full time equivalent employees (FTEES) per month employed by the company during the eight-week period (starting on the loan date); divided by:

- Denominator: the **lower** of (i) the average number of FTEES per month employed by the company during the period from **February 15, 2019 through June 30, 2019, OR** (ii) the average number of FTEES per month employed by the company during the period from **January 1, 2020 through February 29, 2020**.

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2. Reduction in Wages

Subtract a dollar amount computed as follows:

- identify all employees earning less than $100,000 (Applicable Employee(s)) who are still employed during the eight-week period;
- for each Applicable Employee, take that employee's wages/salary rate during the eight-week period and compare it to that employee's wages/salary rate for Q1 2020;
- ideally the current wages/salary rate hasn't dropped by more than 25% of the Q1 wages/salary rate;
- for any Applicable Employee whose current wages/salary rate did drop by more than 25%: compute (x) the amount of wages/salary the employee would have received for the eight-week period at 75% of the Q1 rate and subtract (y) the amount the employee actually received for the eight-week period;
- add up all of the >25% reduction amounts for all of the Applicable Employees still employed during the eight-week period.

That aggregate dollar amount further decreases the amount of the loan that is forgivable.

The Applicable Employees are only those employees whose wages/salary rates were not greater than $100,000 annually during 2019.

Additionally, the calculation excludes any current employee who in 2019 had a variable pay arrangement (overhead, commissions, etc.) and/or who earned more than $8,333 in any month.

3. Rehires

Correct decreases from either of the first or second step, respectively, as follows:

- The Reduction in Headcount can be avoided if by June 30, 2020 the reduction in your total FTEES headcount for the period between February 15, 2020 and April 26, 2020 has been restored; and/or
- Reduction in Wages can be avoided if by June 30, 2020 you have restored to the Applicable Employees the same wages/salary they were earning as of February 15, 2020.

The Rehire step is meant to motivate companies to use loan proceeds to restore headcount **AND** wage levels. **If you do both, then the full loan amount can be forgiven**. If you do one or the other, then one reduction, or the other, can be ignored but there is no proportional relief for restoring part of one or part of the other.

The SBA continues to produce new and revised guidance on this program, which may result in changes to this analysis and spreadsheet. This spreadsheet is provided as an educational tool to assist potential borrowers of a PPP loan in generally understanding the mechanism by which their loan may be forgiven in whole or in part but *should not be relied upon as the final determination of such forgiveness amount. Borrowers should work with their lenders to determine the forgivable amount of their loan.*

This advisory was prepared by Josh French and Shannon Zollo in Nutter's Corporate and Transactions Department. For more information, please contact Josh, Shannon, or your Nutter attorney at 617.439.2000.