ADP PPP Scenarios

Payroll service provider, ADP, has published three PPP loan forgiveness scenarios on their website. We aren't attempting to provide specific advice on how to calculate loan forgiveness, but we thought this information might be helpful for you to review. Please check with your accounting professional for advice on your specific situation.

Scenario 1

Maria's Eyecare received a PPP loan of $70,000 on April 10, 2020. The company has 8 weeks to meet the criteria for loan forgiveness. The timeline starts as soon as the company receives the loan.

WEEKS:	1	2	3	4	5	6	7	8
PAYROLL COSTS:	$7,000 **	$8,000	$9,000	$7,000 + $4,000*** in rent & utilities	$8,000	$7,000	$8,000	$8,000 + $4,000 in rent & utilities

Loan received on April 10, 2020	
Loan amount:	**$70,000**
Total Used on Payroll Costs:	**$62,000**
Total Used on Other Permitted Costs:	**$8,000** (rent & utilities)
Total Amount Used for Permitted Reasons During the 8 Weeks:	**$70,000** ✓
Percentage Used on Payroll Costs:	**88.57%** ✓
Percentage Used on Other Permitted Costs:	**11.43%**

In the 8 weeks after receiving the loan, Maria's Eyecare didn't reduce the number of full-time-equivalent (FTE) employees and didn't reduce the pay of any employee.

Because the company met all the criteria for loan forgiveness, the entire $70,000 loan is eligible for forgiveness.

Scenario 2

Benny's Metalworks received a PPP loan of $44,000 on April 12, 2020. The company has 8 weeks to meet the criteria* for loan forgiveness. The timeline starts as soon as the company receives the loan.

Due to a loss of several major accounts, Benny's Metalworks reduced staffing at the end of Week 1, but kept pay levels the same for remaining employees. As a result, Benny's average number of full-time equivalent (FTE) employees per month is 3 during the 8-week period from the date of the loan, down from 5 during a permissible lookback period (Benny used January through February 2020).

Here’s how the company uses the loan in those 8 weeks.

WEEKS:	1	2	3	4	5	6	7	8
PAYROLL COSTS:	$6,000 **	$4,000	$4,000	$4,000 + $5000 *** in rent & utilities	$4,000	$4,000	$4,000	$4,000 + $5000 in rent & utilities

Loan received on April 12, 2020	
Loan amount:	**$44,000**
Total Used on Payroll Costs:	**$34,000**
Total Used on Other Permitted Costs:	**$10,000** (rent & utilities)
Total Amount Used for Permitted Reasons During the 8 Weeks:	**$44,000** ☑
Percentage Used on Payroll Costs:	**77.27%** ☑
Percentage Used on Other Permitted Costs:	**22.73%**

Staff reduction: Since the company was not able to maintain staffing levels during the 8-week period from the date of the loan, the amount of loan forgiveness is reduced proportionately:

Staff reduction:

$$\frac{\text{3 FTE employees}}{\text{5 FTE employees}} = \mathbf{0.60}$$

Amount of Loan Eligible for Forgiveness:	**$26,400**	($44,000 x 0.60)
Amount to Be Repaid by Benny's Metalworks:	**$17,600**	(plus interest)

Note: Any staff reductions occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. However, if the staffing reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the staffing reduction is reversed by June 30, 2020.

Scenario 3

Lucy's Craft Brewery received a $40,000 loan on April 8, 2020. The company generally has 8 weeks to meet the criteria* for loan forgiveness. The timeline starts as soon as the company receives the loan.

Here's how the company uses the loan in those 8 weeks:

WEEKS:	1	2	3	4	5	6	7	8
PAYROLL COSTS:	$3000 **	$3000	$3000	$3000 + $8000 *** in rent & utilities	$3000	$3000	$3000	$3000 + $8000 in rent & utilities

Total Used on Payroll Costs:	**$24,000**
Total Used on Other Permitted Costs:	**$16,000**
Total Amount Used for Permitted Reasons During the 8 Weeks:	**$40,000**
Percentage Used on Payroll Costs:	**60%**
Percentage Used on Other Permitted Costs	**40%**

Lucy hasn't reduced staffing or pay during the 8 weeks, but her payroll costs ended up being lower than she anticipated because an employee was on paid leave under the Families First Coronavirus Response Act (FFCRA). As a result, part of the loan may need to be repaid since, for the purposes of loan forgiveness, no more than 25 percent of the funds may be used for covered non-payroll costs.

Maximum Amount of Covered Nonpayroll Costs the Loan Could Cover:	**$8,000**	(25% of Forgiveness Amount)
	+	
Amount Used on Payroll Costs:	**$24,000**	
	=	
Amount of Loan Eligible for Forgiveness:	**$32,000**	
Amount to Be Repaid:	**$8,000**	(plus interest)

Forgiveness Rules:

Conditions:

* A loan may be fully forgiven if all the following three conditions are met:

- The loan proceeds are spent, or qualifying costs are incurred, within 8 weeks of receipt of the loan proceeds.
- At least 75 percent of the forgiveness amount was used for payroll costs and no more than 25 percent was used for the other permitted Loan Uses.
- Staffing and pay levels must be maintained during the 8-week period immediately following disbursement of the loan****.

Payroll Costs:

** Under the PPP, payroll costs generally include:

- Employee gross pay, including salary, wages, commissions, and tips (capped at $100,000 on an annualized basis for each employee).
- All employer state and local taxes paid on employee gross pay, such as state unemployment insurance and employer-paid state disability insurance (in applicable states).
- Employer healthcare benefits, including insurance premiums.
- Retirement benefits, including defined-benefit or defined-contribution retirement plans and employer 401(k) contributions.
- **Note:** The definition of payroll costs excludes employer federal taxes.

Permitted Loan Uses:

*** PPP loans may be used for:

- Payroll costs;
- Costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave, and insurance premiums;
- Interest on mortgage obligations, incurred before February 15, 2020;

- Rent, under lease agreements in force before February 15, 2020; and
- Utilities, for which service began before February 15, 2020.

Staffing Levels:

**** To determine whether adequate staffing levels have been maintained, the average number of full-time equivalent (FTE) employees per month during the 8-week period from the date of the loan will be compared to one of two time periods. Borrowers may either use the period from February 15 through June 30, 2019 or January through February of 2020. If the number of FTEs during the 8-week period following the loan disbursement is lower than one of these two time periods, the amount of loan forgiveness may be reduced proportionately. However, reductions in staffing occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. If the staffing reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the staffing reduction is reversed by June 30, 2020.

Repayment of the corresponding portion of the loan may be required if an employee's earnings are reduced by more than 25% during the 8-week period from the date of the loan disbursement compared to the most recent full quarter of employment prior to the loan date. However, reductions in compensation occurring between February 15 and April 26, 2020 will not be considered in reducing the loan forgiveness amount if they are reversed by June 30, 2020. If the pay reduction was made outside the February 15 to April 26 timeframe, the forgivable amount may still be reduced even if the pay reduction is reversed by June 30, 2020.

***** PPP loan proceeds may not be used to pay FFCRA paid sick or family leave wages for which a tax credit is allowed.