

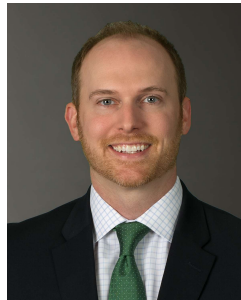
## An Update on the Paycheck Protection Program for Dealerships

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## Presenters



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## AGENDA

- Updated FAQs
- PPP Forgiveness Application Update
- Best Practices
- Common questions and concerns

## FAQ #31 & #37

- Question: Do businesses owned by **large companies** with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?  
+ Answer: It depends...
- Question: Do businesses owned by **private companies** with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?  
+ Answer: It depends...

**FAQ #38**

- Question: Section 1102 of the CARES Act provides that PPP loans are available only to applicants that were “in operation on February 15, 2020.” Is a business that was in operation on February 15, 2020 but had a change in ownership after February 15, 2020 eligible for a PPP loan?
- Answer: Yes. If acquiring business has maintained the operations of the pre-sale business, the acquiring business may rely on this historic payroll costs and headcount of the pre-sale business for purposes of its PPP application.

**FAQ #39**

- Question: Will SBA review individual PPP loan files?
- Answer: Yes. SBA will review all loans in excess of \$2 million, in addition to other loans as appropriate.

## FAQ #40

- Question: Will a borrower's PPP loan forgiveness amount be reduced if the borrower laid off an employee, offered to rehire the same employee, but the employee declined the offer?
- Answer: No. The forgiveness reduction calculations will exclude laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours).
  - + Borrower must have made a good faith, written offer of rehire, and
  - + Employee's rejection of that offer must be documented by the borrower

## Polling Question



## FAQ #43 and FAQ #47

- FAQ #43 extended the repayment date for the safe harbor to May 14, 2020
- FAQ #47 extended the repayment date for the safe harbor to May 18, 2020

## FAQ #45

- Question: Is an employer that repays its PPP loan by the safe harbor deadline eligible for the Employee Retention Credit?
- Answer: Yes.

## FAQ #46

- Question: How will SBA review borrowers' required good-faith certification concerning the necessity of their loan request?
- Answer:
  - + Any borrower that, together with its affiliates, received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.
  - + Borrowers with loans greater than \$2 million that do not satisfy this safe harbor may still have an adequate basis for making the required good-faith certification.
  - + If SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request, SBA will seek repayment of the outstanding PPP loan balance and will inform the lender that the borrower is not eligible for loan forgiveness.

## Polling Question







## Interim Final Rule on Loan Forgiveness

- Introduces a new 90-day SBA review period to the statutory 60-day period for lender review of forgiveness
- Payroll costs paid to furloughed employees, bonuses, and hazard pay are eligible for loan forgiveness
- Addresses many components that are part of the loan forgiveness application
  - + Salary/hourly wage reduction is structured “to ensure borrowers are not doubly penalized”

## Interim Final Rule on SBA Loan Review

- If SBA determines a borrower was ineligible for a PPP loan, the SBA may seek loan repayment or “pursue other available remedies”
- The CARES Act nonrecourse provision does not apply to the equity holders such an ineligible borrower who fails to repay its PPP loan
- The SBA can claw back lender processing fees paid to the lender who made the loan to the ineligible borrower

## Forgiveness Application Released

 <b>Psychick Protection Program</b> Long Foreperson Application <u>PPP Loss Treatment Calculation Form</u>	 OMB Control Number 3245-0487 Expiration Date 10/31/2025	 <b>Psychick Protection Program</b> Loss Forepersons Application <u>PPP Schedule A Worksheet</u>	 OMB Control Number 3245-0487 Expiration Date 10/31/2025
<b>Borrower/Lost Time/Borrower's:</b>			
Name Last, First, Middle Initial _____ HSA or Healthcare Provider _____			
Business Address _____ Business Phone (_____) _____ Business Email _____			
Primary Contact _____ Cell Address _____			
<p>SRA PPP Loss Number: _____ Lender PPP Loss Number: _____</p> <p>PPP Loss Amount: _____ PPP Loss Debarment Date: _____</p> <p>Employee(s) at Time of Loss Application: _____</p> <p>Employee(s) at Time of Forgiveness Application: _____</p> <p>EIDL Advance Amount: _____ EIDL Application Number: _____</p>			
<p><b>Paidoff Schedule:</b> The frequency with which payroll is paid to employees is:</p> <p><input type="checkbox"/> Weekly    <input type="checkbox"/> Biweekly (every other week)    <input type="checkbox"/> Twice a month    <input type="checkbox"/> Monthly    <input type="checkbox"/> Other _____</p> <p>Covered Period: _____ to _____</p> <p>Alternative Payroll Covered Period, if applicable: _____ to _____</p> <p>If Borrower (together with affiliates, if applicable) received FTE loans in excess of \$2 million, check here: <input type="checkbox"/></p> <p><b>Forgiveness Amount Calculations:</b></p> <p><u>Payroll and Unemployment Claim</u></p> <p>Line 1: Payroll Costs (enter the amount from PPP Schedule A, Item 1(a)) _____</p> <p>Line 2: Business Mortgage Interest Payments _____</p> <p>Line 3: Business Rents or Lease Payments _____</p> <p>Line 4: Business Utility Payments _____</p> <p><u>Aidments for Paid-Tax Salary Payments (FTEE and Salary Money Wage Reduction)</u></p> <p>Line 5: Total Salary Money Wage Reduction (Enter the amount from PPP Schedule A, Item 3) _____</p> <p>Note: Add the amounts on Lines 1, 2, 3, and 4; then subtract the amount entered on Line 5.</p> <p>Line 6: FTE Reduction Quotient (divide the number from PPP Schedule A, Item 1(b)) _____</p> <p><u>Personal Forgiveness Amounts</u></p> <p>Line 7: Modified Total (multiply Line 6 by 1%) _____</p> <p>Line 8: PPP Loss Amount: _____</p> <p>Line 9: Payroll Cost 75% Requirement (divide Line 1 by 0.75) _____</p> <p><u>Forgiveness Amount</u></p> <p>Line 10: Forgiveness Amount (enter the smallest of Lines 8, 9, and 10): _____</p>			
<b>FPP Schedule A Worksheet, Table 1 (Total)</b>			
Line 1: Enter Cash Compensation (See 3) from PPP Schedule A Worksheet, Table 1: _____			
Line 2: Enter Average FTE (Item 2) from PPP Schedule A Worksheet, Table 1: _____			
Line 3: Enter Salary Money Wage Reduction (See 5) from PPP Schedule A Worksheet, Table 1: If the average annual salary is less than the wage rate for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period it was at least 75% of the employee's average annual salary as body wage between January 1, 2020 and March 31, 2021, check box 1; and enter 0 on line 3.			
<b>FPP Schedule A Worksheet, Table 2 (Total)</b>			
Line 4: Enter Cash Compensation (See 3) from PPP Schedule A Worksheet, Table 2: _____			
Line 5: Enter Average FTE (Item 2) from PPP Schedule A Worksheet, Table 2: _____			
<u>Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period</u>			
Line 6: Total amount paid by Borrower for employee contributions for employee health insurance: _____			
Line 7: Total amount paid by Borrower for employee contributions to employee retirement plans: _____			
Line 8: Total amount paid by Borrower for employee state and local taxes assessed on employee compensation: _____			
<b>Compensation to Children</b>			
Line 9: Total amount paid to minor employees self-employed individual parent parties. This amount may not include in PPP Schedule A Worksheet, Table 1e 2. If there is more than one individual included, attach a separate write-up that lists the names of said payment to each.			
<b>Total Payroll Costs</b>			
Line 10: Payroll Costs (add Lines 1, 4, 6, 7, 8, and 9): _____			
<b>Full-Time Employees' FTEs Reduction Calculations</b>			
If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period, check box 1, skip lines 11 and 12 and enter 0 on line 13.			
Line 11: Average FTE during the Borrower's chosen reference period: _____			
Line 12: Total Average FTE (add Lines 2 and 5): _____			
Line 13: FTE Reduction Quotient (divide Line 10 by line 12) will not exceed 1.0 if FTE Rate Harbor is met: _____			

<b>Pyckcheck Protection Program Loss Forepersons Application</b>			
			OMB Control Number 3245-0487 Expiration Date: 10/31/2025
<b>PPP Schedule A Worksheet</b>			
Table 1: List employee(s) who: <ul style="list-style-type: none"> <li>Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and</li> <li>Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not compensated by the Borrower at any point in 2019.</li> </ul>			
Employee's Name	Employee Identifier	Cash Compensation	Average FTE / Hourly Wage Reduction
<b>FTE Reduction Exceptions:</b>		Box 1	Box 2 Box 3
<b>Totals:</b>		Box 1	Box 2 Box 3

<b>Table 2: List employees who:</b>			
<ul style="list-style-type: none"> <li>Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and</li> <li>Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.</li> </ul>			
Employee's Name	Employee Identifier	Cash Compensation	Average FTE
<b>Totals:</b>		Box 4	Box 5

Add additional tables if additional rows are needed.

- Application Source: <https://www.sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application>

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## PPP Forgiveness Application Changes

- Alternative Payroll Covered Period
- Payroll costs - Paid and Incurred
- Salary/Hourly Wage Reduction
  - + Salary/Hourly Wage Reduction Safe Harbor
- FTE Calculation
  - + FTE Reduction Safe Harbor
  - + FTE Reduction Exceptions
- Nonpayroll Costs
- Ordering of the Forgiveness Reduction Provisions
- \$2 Million Rule

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## Alternative Payroll Covered Period

- Two coverage periods: “Alternative Payroll Coverage Period” and “Coverage Period”
- If biweekly (or more frequent) payroll schedule:
  - + Utilized ‘Alternative Payroll Coverage Period’ which begins on first day of first pay period following PPP loan disbursement date
  - + Example (assuming biweekly payroll):
    - PPP loan proceeds received Monday, 4/20/20
    - Sunday, 4/26 is first day of its first pay period
    - ‘Alternative Payroll Covered Period’ is 4/26 and last day is 6/20
- If electing Alternative, apply it to all areas where it references the alternative period
- The original ‘Coverage period’ remains 4/20 to 6/14/20 for non-payroll cost

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## Payroll Costs - Paid and Incurred

- Payroll costs paid and payroll costs incurred are forgivable
  - + Paid - check distributed or ACH transaction initiated
  - + Incurred - employee's pay is earned
- At end of 8-week period: Payroll costs incurred, but not paid, are included in forgiveness amounts if paid before or on the next regular pay date
- \$15,385 maximum forgivable (\$100k annualized)
- Summary of coverage period:
  - + Beginning – cash basis
  - + End – accrual basis

Payroll - Paid and Incurred (Alternative Coverage Period)		
Date	Description	How to treat payroll costs
4/20/2020	Loan Date	
<b>A</b> 4/26/2020	First payroll paid	Included (payroll incurred in previous weeks)
various	Other payrolls	Included
<b>B</b> 6/20/2020	Alt Coverage Period End Date	
6/26/2020	Payroll paid	Partially included (pay incurred through 6/20/20)
<b>A</b> Start Alternative Coverage Period		
<b>B</b> End Alternative Coverage Period		

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## Polling Question



## Salary/Hourly Wage Reduction– PPP Schedule A Worksheet

- Table 1 (<\$100k non-owner employees)
  - + Employed during Coverage Period or Alternative Payroll Coverage Period & US residents
  - + 2019 annualized pay less than \$100k
    - Gross wages less than \$100k and
    - All pay periods in 2019 annualized less than \$100k
  - + Proceed to compensation reduction calculations
- Table 2 (> \$100k non-owner employees)
  - + Employed during Coverage Period or Alternative Payroll Coverage Period & US residents
  - + 2019 Annualized pay more than \$100k
    - Gross wages more than \$100k or
    - Any pay period in 2019 annualized to more than \$100k
  - + No need to compute compensation reduction calculations

## Salary/Hourly Wage Reduction

- Step 1: Was pay reduced by more than 25%?
  - + (a) Avg annual salary/hourly wage during Covered Period or Alternative Payroll Coverage Period
  - + (b) Avg annual salary/hourly wage 1/1/20 to 3/31/20
  - + 1(c) = 1(a) divided by 1(b) = Proceed to Step 2 if < 75%
- Note: Hourly appears to be based upon hourly rate – if rate has not decreased more than 25%, then no further steps required

## Salary/Hourly Wage Reduction Safe Harbor

- Step 2: Determine if Safe Harbor is met. (previous reduction in compensation and compensation restored as of 6/30/20)
- Compensation reduction is not applicable if BOTH occur:
  - + Compensation as of 2/15/20 (2(a)) is lower than the average compensation from 2/15/20 to 4/26/20 (2(b)) AND
  - + Compensation restored as of 6/30/20 (2(c)) to greater than or equal to 2/15/20 compensation

Salary/Hourly Wage Reduction Safe Harbor				
<b>Example 1:</b>		<b>Salary</b>	<b>Hourly Rate</b>	
2/15/20		\$ 5,000	\$ 12.50	
Avg 2/15/20 to 4/26/20		\$ 3,000	\$ 10.50	<i>Reduction</i>
6/30/20		\$ 5,000	\$ 12.50	<i>&gt; = 2/15/20 Rate</i>
<b>Safe Harbor applies</b>				
<b>Example 2:</b>				
2/15/20		\$ 5,000	\$ 12.50	
Avg 2/15/20 to 4/26/20		\$ 5,000	\$ 12.50	<i>No reduction</i>
6/30/20		\$ 5,000	\$ 12.50	
<b>Safe Harbor does not apply</b>				

## Salary/Hourly Wage Reduction Calculation - Hourly

Salary/Hourly Wage Reduction Calculation				
		Employee A	Employee B	Employee C
		Hourly Rate	Hourly Rate	Hourly Rate
Step 1: Pay reduced > 75%?				
Annual salary or hourly wage during period	1(a)	\$ 10.00	\$ 14.00	\$ 18.00
Avg wages 1/1/20 - 3/31/20	1(b)	\$ 15.00	\$ 20.00	\$ 18.00
If >= 75%, stop. Move to step 2 if < 75%	1(c)	67%	70%	100%
Step 2: Safe Harbor:				
February 15, 2020 wage	2(a)	\$ 15.00	\$ 20.00	
Average wage 2/15 - 4/26	2(b)	\$ 13.00	\$ 19.00	
if 2(b) >= 2(a) skip to step 3, otherwise 2(c)	2(c)	Proceed to 2c	Proceed to 2c	
June 30, 2020 wage	2(c)	\$ 14.90	\$ 18.00	
If 2(c) >= 2(a), stop. Otherwise proceed to Step 3		Go to Step 3	Go to Step 3	
Step 3: Determine Salary/Hourly Wage Reduction				
1(b) x 75%	3(a)	\$ 11.25	\$ 15.00	
1(a) - 3(a)	3(b)	\$ (1.25)	\$ (1.00)	
Avg hours worked 1/1/20 - 3/31/20	3(c)	25	32	
Reduction:				
Hourly: 3(b) x 3(c) x 8	3(d)	\$ (250.00)	\$ (256.00)	\$ -
Salary: 3(b) x 8 / 52	3(e)			

\$ 20.00	1(b) Avg wages 1/1 to 3/31
75%	
\$ 15	= 3(a)
\$ 14.00	1(a) Hourly rate during period
(15.00)	Less: 3(a)
\$ (1.00)	Reduced pay > 25%
\$ 32	3(c) Avg hours worked
8 weeks	
\$ (256.00)	

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## Salary/Hourly Wage Reduction Calculation - Salary

Salary/Hourly Wage Reduction Calculation				
		Employee D	Employee E	Employee F
		Salary	Salary	Salary
Step 1: Pay reduced > 75%?				
Annual salary or hourly wage during period	1(a)	\$ 55,000	\$ 60,000	\$ 75,000
Avg wages 1/1/20 - 3/31/20	1(b)	\$ 85,000	\$ 85,000	\$ 85,000
If >= 75%, stop. Move to step 2 if < 75%	1(c)	65%	71%	88%
Step 2: Safe Harbor:				
February 15, 2020 wage	2(a)	\$ 85,000	\$ 85,000	
Average wage 2/15 - 4/26	2(b)	\$ 65,000	\$ 65,000	
if 2(b) >= 2(a) skip to step 3, otherwise 2(c)	2(c)	Proceed to 2c	Proceed to 2c	
June 30, 2020 wage	2(c)	\$ 70,000	\$ 85,000	
If 2(c) >= 2(a), stop. Otherwise proceed to Step 3		Go to Step 3	Safe Harbor Met	
Step 3: Determine Salary/Hourly Wage Reduction				
1(b) x 75%	3(a)	\$ 63,750		
1(a) - 3(a)	3(b)	\$ (8,750)		
Avg hours worked 1/1/20 - 3/31/20	3(c)			
Reduction:				
Hourly: 3(b) x 3(c) x 8	3(d)			
Salary: 3(b) x 8 / 52	3(e)	\$ (1,346)	\$ -	\$ -

\$ 85,000	1(b) Avg wages 1/1 to 3/31
75%	
\$ 63,750	= 3(a)
\$ 55,000	1(a) Salary during period
(63,750)	Less: 3(a)
\$ (8,750)	Reduced pay > 25%
x 8 / 52	
\$ (1,346)	

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## FTE Calculation – How to calculate

- Two methods allowed (borrower's choice):
- 40 Hours Method:
  - + Hours divided by 40
  - + Capped at a maximum of 1.0 for each employee
  - + Total rounded to nearest tenth
- Alternative method:
  - + 1.0 for employees who work 40 or more hours/week
  - + 0.5 for employees who work less than 40 hours/week
  - + Total rounded to nearest tenth



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40 Hours Method:				
	Weekly Hours	Divide by 40	Capped at 1.0	
Ricky Bobby	40	1.00	1.00	
Cal Naughton Jr.	52	1.30	1.00	
Jean Girard	42	1.05	1.00	
Cole Trickle	35	0.88	0.88	
Rowdy Burns	24	0.60	0.60	
Russ Wheeler	16	0.40	0.40	
Total rounded to nearest tenth				4.9 FTEs

Alternative Method:				
	Weekly Hours		> 40 = 1.0 < 40 = 0.5	
Ricky Bobby	40		1.0	
Cal Naughton Jr.	52		1.0	
Jean Girard	42		1.0	
Cole Trickle	35		0.5	
Rowdy Burns	24		0.5	
Russ Wheeler	16		0.5	
Total rounded to nearest tenth				4.5 FTEs

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## FTE Reduction Calculation

- Has a reduction in FTEs or average paid hours occurred between 1/1/20 and end of Coverage Period?
  - + No: No FTE reduction tests required
  - + Yes: Calculate Average FTEs for following periods
    - 2/15/19 to 6/30/19
    - 1/1/20 to 2/29/20
    - Coverage Period or Alternative Coverage Period

FTE Reduction Calculation		
Monthly avg FTEs during Covered Period or Alternative Payroll Coverage Period		60
Lesser of the following options (at the borrower's choice):		
Monthly avg FTEs 2/15/19 to 6/30/19		100
Monthly avg FTEs 1/1/20 to 2/29/20		95
Borrowers choice		95
FTE Reduction Quotient		-37%



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## FTE Reduction Safe Harbor

- Safe Harbor allowed if previous reduction in FTEs and FTEs restored at later date
- FTE reduction is not applicable if BOTH occur:
  - + FTEs as of 2/15/20 is higher than FTEs as of 4/26/20 (average FTE per week between 2/15/20 to 4/26/20) AND
  - + FTEs restored by 6/30/20 to levels of 2/15/20 pay period FTE count

FTE Reduction Safe Harbor		
<b>Example 1:</b>		FTE Count
2/15/20		95
4/26/20 (avg 2/15/20 to 4/26/20)		60 <i>Reduction</i>
6/30/20 (not later than)		95
<b>Safe Harbor applies</b>		
<b>Example 2:</b>		
2/15/20		95
4/26/20 (avg 2/15/20 to 4/26/20)		95 <i>No reduction</i>
6/30/20 (not later than)		95
<b>Safe Harbor does not apply</b>		

## FTE Reduction Exceptions

- FTE reductions are restored if good-faith, written offer made for any employee who:
  - + Employee who was laid off (FAQ #40) (layoff does not have to occur within covered period) or
- FTE reductions are restored for any employee:
  - + Fired for cause or
  - + Voluntarily resigned or
  - + Voluntarily requested and received reduction in hours
  - + Restoration is complex computation
- FTE reduction is not restored if the FTE's position was filled by a new employee

## Polling Question



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## Nonpayroll Costs

- Nonpayroll costs
  - + Paid during the covered period OR
  - + Incurred and paid on or before the next regular billing date (even if billing date is after covered period)
- Summary of coverage period:
  - + Beginning – cash basis
  - + End – Accrual basis
  - + Coverage Period (Alternative Payroll Coverage Period not allowed)
    - It is possible to have two different 8-week coverage periods in the overall forgiveness computation

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## Ordering of the Forgiveness Reduction Provisions

- Step 1 (line 6)– Compensation reduction test
- Step 2 (line 8) – FTE reduction test (net forgiveness amount after the compensation reduction is multiplied by the FTE reduction quotient)
- Step 3 (line 10)– 75/25 test

Ordering of the Forgiveness Reduction	
<b>Payroll and Nonpayroll Costs</b>	
1 Payroll Costs	\$ 845,000
2 Business Mortgage Interest	\$ -
3 Business Rent or Lease Payments	\$ 140,000
4 Business Utility Payments	\$ 100,000
<b>Adjustments for FTE and Salary/Hourly Wage Reductions</b>	
5 Total Salary/Hourly Wage Reduction	\$ (150,000)
6 All amounts on lines 1, 2, 3 and 4 less line 5	\$ 935,000
7 FTE Reduction Quotient	95%
<b>Potential Forgiveness Amounts</b>	
8 Modified Total (6 x 7)	\$ 888,250
9 PPP Loan Amount	\$ 1,250,000
10 Payroll Costs 75% Requirement (1 divided by 75%)	\$ 1,126,667
<b>Forgiveness Amount</b>	
11 Forgiveness Amount (smallest of lines 8, 9 and 10)	\$ 888,250

## \$2 Million Rule – What dealerships need to know

- \$2M checkbox on application
  - + Selected if borrower, together with its affiliates, received PPP loans over \$2 million
  - + Affiliation rules waived by Interim Final Rule for loans which were assigned a identifier code by the SBA
    - Summary: If you have multiple loans through franchise identifier codes, you can consider each loan separately for purposes of the \$2M checkbox
    - Example:
      - Auto group with four different franchises
      - Each franchise has their own SBA identifier code
      - Four separate PPP loans of \$1.5M per loan
      - \$2M checkbox is not applicable (For example treated as 4 separate \$1.5M loans)



## Best Practices

- Deposit loan proceeds into a separate bank account (and GL account)
  - + Especially important if your regular operating account sweeps overnight into a common account used by multiple entities
- Use a spreadsheet to track everything and update it weekly, at a minimum
- Model different scenarios
- Retain and document the paper trail – separate shared folder on server
  - + Page 10 of application provides detailed list of required documents

## Common Questions / Concerns

- How are commission-pay employees considered for purposes of the salary/hourly wage reduction calculation?
- Should you prorate non-payroll costs related to the “incurred” amount?
- How do owner-employees factor into the application?
- In the FTE safe harbor rule, do I get to include the effect of the FTE reduction?

## Common Questions / Concerns

- Could you have two payrolls be included with the “incurred” amount for payroll costs?
- Can you have multiple Alternative Payroll Coverage Periods to cover different payroll cycles?
- Would “incurred” payroll costs at the end of the 8-week period also include a portion of a monthly bonus that would be earned?
- For the salary/hourly wage reduction test, what does “employed during the covered period” mean?
- How does \$2M safe harbor rules work for affiliated non-franchised businesses?



Questions?

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