VISTAGE | Leading in Challenging Times

PPP forgiveness deep dive and preparing for what's next

Presented by UBS Financial
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Public

PPP Forgiveness Deep Dive

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PPP Flexibility Act ("the Act")

Covered Period Extension

- The Act would increase the original 8-week covered period to the **earlier of 24 weeks or 12/31/2020**
- For existing loans, borrowers would be allowed to maintain the 8-week period
- 6/30/2020 remains the deadline to apply for PPP loans

Changes to Payroll/Non-payroll Costs and Ratio

- Reduction to the 75% payroll requirement **to 60%** which allows more for non-payroll
- As the Act is currently written, forgiveness requires 60% of the total loan (as opposed to what was spent) to be spent on payroll; however the SBA has confirmed **that they will allow partial forgiveness** on 6/8/2020
- The borrower now should use at least 60% of PPP funds for payroll costs and up to 40% on non-payroll costs
- Hazard pay and bonuses do qualify as payroll costs which count toward loan forgiveness

Additional Exceptions

- Rehire exemption date extended to **12/31/2020** from **6/30/2020**
- As part of the forgiveness example, the SBA provided 4 exceptions regarding workforce reductions: (1) those offered their job back but refused it in writing, (2) those fired for cause, (3) those who voluntarily resigned and (4) those who voluntarily sought a reduction in hours
- Two additional exceptions were provided in the Act: (1) If borrower can demonstrate an inability to hire similarly qualified employees for any workforce reductions or (2) if the borrower can "demonstrate an inability to return to the same level of business activity" compared to before 2/15/2020

More time to pay back loan and principal & Interest Deferment

- New PPP loans now have a **5 year loan term** rather than **2 year** loan term.
- Increase the deferment of principal and interest payments from six months until loan forgiveness is determined (upwards of nearly two years)

Delay Payment of Employer Payroll Taxes

- Taxpayers that have a PPP loan forgiven are now also be eligible to **delay payment of employer payroll taxes** – they were previously prevented from doing so if they had a PPP loan forgiven.

Information is as of June 8, 2020 per Treasury Department's PPP Extension Act and Treasury's Press Release

Pre-PPP Flexibility Act Guidance on PPP Loan Forgiveness *Updates are expected due to recent changes*

Time Period Flexibility for Payroll

- Option to use an covered period that more closely aligns with payroll cycle
- Amounts incurred prior to the forgiveness period, but paid during the forgiveness period are includable in the forgiveness amount

Additional eligibility for payroll costs

- Hazard pay and bonuses can now qualify as payroll costs which count toward loan forgiveness

Exceptions for FTE Reductions

- The FTE Safe Harbor (restoring job reductions that were made between 2/15/2020 and 4/26/2020 by 6/30/2020 (now by 12/30/2021) is all or nothing
- The SBA will allow for exceptions in workforce reductions for those who were either:
  (a) laid off but refuse to come back to work,
    - Borrower has to inform the applicable state unemployment office of such rejected offer within 30 days
  (b) fired with cause,
  (c) voluntarily resigned, or
  (d) requested and received a reduction in hours.

The Forgiveness Formula

- For hourly employees, it is only the hourly wage that matters and not any reduction in hours
- While reduction in hours would not reduce forgiveness in this calculation, it could impact number of FTEs in the FTE Reduction Quotient

Expanding the definition of rent and prepayments

- Forgiveness application allows possibility of lease payments for capital or equipment rentals as well as the ability for borrowers to be included as rent and utility costs that happen on or before the next regular billing date, even if that date is outside the 8-weeks
- Non-payroll costs must be (1) paid during the Covered Period or, (2) for purposes of rent and utilities only (i.e., not mortgage interest), incurred during the Covered Period and paid on or before the next regular billing date even if the next billing date is afterwards.
- This indicates that pre-payments of rent and utilities may be possible

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Information is as of June 8, 2020 per Treasury Department's PPP Extension Act and Treasury's Press Release

Loan forgiveness equations (1/2)

Loan Forgiveness

The smallest of (i), (ii), or (iii)

i — PPP Loan Principal Amount

ii — $\frac{\text{Payroll Costs}}{0.60}$

iii — $\left(\underset{a}{\text{Allowable Costs Spent}} - \underset{b}{\text{Total Salary/Hourly Wage Reductions}} \right) \times \underset{c}{\text{FTE Reduction Quotient}}$

See next page for details on (a), (b) and (c)

*Note: If applicable, SBA will deduct **EIDL Advance Amounts** from the forgiveness amount.*

Information is as of June 8, 2020 per Treasury Department's PPP Extension Act and Treasury's Press Release

Loan forgiveness equations (2/2)

Consult your lender for full detailed step by step instructions. You must be consistent when choosing between the Covered Period or the Alternative Payroll Covered Period.

a Sum of amount spent on allowable costs during the 24 week period

- Amounts paid to employees and/or owners (owner-employees, self-employed individuals, or general partners) not to exceed $46,154 for the 24-week applicable compensation
  - Note: for self-employed/owners/general partners, additional language is provided that would limit wages to be no greater than 2019 levels
- Employer contributions for employee health insurance, including contributions to a self-insured, employer-sponsored group health plan
- Employer contributions for employee retirement plans
- Amounts paid by the borrower for employer state and local taxes assessed on employee compensation (e.g., state unemployment insurance tax); do not list any taxes withheld from employee earnings

b Salary/Hourly Wage Reductions

- For each individual employee making $100,000 or less annualized in 2019 or were hired in 2020, determine if pay was reduced by more than 25%
- For those reduced by more than 25%, determine if the "Safe Harbor" for Salary/Hourly Wage Reductions is met by restoring wages in full for eligible employees by 12/31/2020

c FTE Reduction Quotient

- Determine if the FTE Reduction Safe Harbor is met. The Safe Harbor only applies for workforce reductions from 2/15/2020 – 4/26/2020 that are restored by 12/31/2020
- Determine the average FTEs during the 24 week Covered Period (or Alternative Payroll Covered Period) **being sure to add back any FTE Reduction Exceptions** (due to voluntarily departure, being fired, etc.) – *this will be the numerator below*
- Select the baseline reference period at the business owner's election by determining the fewest average number of FTEs during the following periods – *this will be the denominator below*
  1. 2/15/2019 through 6/30/2019; or
  2. 1/1/2020 through 2/29/2020;
  3. For seasonal employers only: either of (1) or (2) directly above or any consecutive 12 week period from 5/1/2019 through 9/15/2019
- Calculate the FTE Reduction Quotient, *not to exceed 100%*:

$$\frac{\text{Avg. FTEs during the 24 weeks}}{\text{Avg. FTEs during reference period}}$$

Information is as of June 8, 2020 per Treasury Department's PPP Extension Act and Treasury's Press Release

PPP Loan Forgiveness Illustrative Example (1/5) – No Change in FTEs

The scenario

- i Loan amount: **$100,000**
- Avg. monthly payroll: $40,000
- ii a1 **$80,000 spent on payroll over the covered period**
- No reductions in FTEs or salaries
- a2 Other allowable costs over 8 weeks: $15,000
- b **The business did not decrease wages by more than 25%**
- c **Determine the average number of Full Time Equivalents (FTEs)** for three time periods
  - 1 24 week period after loan funding: **11**
  - 2 Feb 15 – June 30, 2019: **10**
  - 3 Jan 1 – Feb 29, 2020: **11**

NOTE: Not a seasonal employer

- Businesses are given an option between 2 and 3 above. It is recommended to choose the smaller figure to maximize forgiveness

Loan forgiveness is the minimum of (i), (ii) or (iii)

i Loan Principal Amount

= $100,000

ii $\frac{\text{Payroll Costs}}{0.60}$

$\frac{\$80,000}{0.60}$ **= $133,333**

iii (Allowable Costs Spent (a) – Total Salary/Hourly Wage Reductions (b)) x FTE Reduction Quotient (c)

$\left(\left(\begin{array}{c}\$80,000\\+\\\$15,000\end{array}\right) - \$0\right) \times \frac{11 \text{ (1)}}{\text{Lesser of }(10, 11)\text{ (2) (3)}}$

$(\$95,000 - \$0) \times 100\%$ **= $95,000**

(not to exceed 100%)

Amount forgiven = smallest of (i), (ii) or (iii)

Loan remaining = $5,000

PPP Loan Forgiveness Illustrative Example (2/5) – FTE Reduction to Part Time

The scenario

- i Loan amount: **$100,000**
- Avg. monthly payroll: $40,000
- Business grew in employees over the last year from 10 to 11 employees, but, after COVID-19, 2 FTE's hours were cut by 10 from 40 to 30, leaving it with (11 – (2 x (10/40)) = 10.5 FTEs
- The new avg. monthly payroll with 10.5 FTEs is $33,000
- ii a1 **$66,000 spent on payroll over the covered period**
- a2 Other allowable costs over 8 weeks: $25,000
- b While it also implemented some reduction in salaries, **it did not decrease hourly wages or salaries by more than 25%**
- c **Determine the average number of Full Time Equivalents (FTEs)** for three time periods
  - 1 24 week period after loan funding: **10.5**
  - 2 Feb 15 – June 30, 2019: **10**
  - 3 Jan 1 – Feb 29, 2020: **11**

NOTE: Not a seasonal employer

- Businesses are given an option between 2 and 3 above. It is recommended to choose the smaller figure to maximize forgiveness

Loan forgiveness is the minimum of (i), (ii) or (iii)

i Loan Principal Amount

= $100,000

ii $\frac{\text{Payroll Costs}}{0.60}$

$\frac{\$66{,}000}{0.60}$ **= $110,000**

iii (Allowable Costs Spent (a) – Total Salary/Hourly Wage Reductions (b)) x FTE Reduction Quotient (c)

$$\left(\left(\$66{,}000 + \$25{,}000\right) - \$0\right) \times \frac{10.5}{\text{Lesser of }(10,\ 11)}$$

($91,000 – $0) x 100% *(not to exceed 100%)* **= $91,000**

Amount forgiven = smallest of (i), (ii) or (iii)

Loan remaining = $9,000

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iii *If FTE safe harbor is met by restoring the 2 employees' hours to 40 to 11 FTEs by December 31, 2020*

($91,000 – $0) x 100% **= $91,000**

No change to the amount forgiven

UBS *Illustrative. Consult your lender.*

PPP Loan Forgiveness Illustrative Example (3/5) – Significant Reduction to FTEs

The scenario

- i Loan amount: **$100,000**
- Avg. monthly payroll: $40,000
- Business grew in employees over the last year from 10 to 11 employees, but, after COVID-19, implemented temporary furloughs for 5 FTEs, leaving it with 6 FTEs
- The new avg. monthly payroll with 6 FTEs is $30,000
- ii a1 **$60,000 spent on payroll over the covered period**
- a2 Other allowable costs over 8 weeks: $25,000
- b While it also implemented some reduction in salaries, **it did not decrease non-furloughed FTEs wages by more than 25%**
- c **Determine the average number of Full Time Equivalents (FTEs)** for three time periods
  1. 24 week period after loan funding: **6**
  2. Feb 15 – June 30, 2019: **10**
  3. Jan 1 – Feb 29, 2020: **11**

NOTE: Not a seasonal employer

- Businesses are given an option between 2 and 3 above. It is recommended to choose the smaller figure to maximize forgiveness

Loan forgiveness is the minimum of (i), (ii) or (iii)

i Loan Principal Amount

= $100,000

ii $\frac{\text{Payroll Costs}}{0.60}$

$\frac{\$60{,}000}{0.60}$ **= $100,000**

iii (Allowable Costs Spent (a) – Total Salary/Hourly Wage Reductions (b)) x FTE Reduction Quotient (c)

$$\left(\left(\begin{matrix}\$60{,}000\\+\\\$25{,}000\end{matrix}\right) - \$0\right) \times \frac{6}{\text{Lesser of } (10,\ 11)}$$

$$(\$85{,}000 - \$0) \times 60\%$$ **= $51,000**

Amount forgiven = smallest of (i), (ii) or (iii)

Loan remaining = $49,000

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iii *If FTE safe harbor is met by restoring FTEs (including any exceptions) to 11 by December 31, 2020*

$$(\$85{,}000 - \$0) \times 100\%$$ **= $85,000**

Amount forgiven = smallest of (i), (ii) or (iii) which would be (ii), $85,000

Loan remaining = $15,000

UBS *Illustrative. Consult your lender.*

PPP Loan Forgiveness Illustrative Example (4/5) – Reduction in Wages and FTEs

The scenario

- i Loan amount: **$100,000**
- Avg. monthly payroll: $40,000
- Business grew in employees over the last year from 10 to 11 employees, but, after COVID-19, implemented temporary furloughs for 5 FTEs, leaving it with 6 FTEs
- The new avg. monthly payroll with 6 FTEs is $30,000
- ii a1 **$60,000 spent on payroll over the covered period**
- a2 Other allowable costs over 8 weeks: $25,000
- b **The business reduced an employee's wages such that it exceeded 25% by $2,000**
- c **Determine the average number of Full Time Equivalents (FTEs)** for three time periods
  1. 24 week period after loan funding: **6**
  2. Feb 15 – June 30, 2019: **10**
  3. Jan 1 – Feb 29, 2020: **11**

NOTE: Not a seasonal employer

- Businesses are given an option between 2 and 3 above. It is recommended to choose the smaller figure to maximize forgiveness

Loan forgiveness is the minimum of (i), (ii) or (iii)

i Loan Principal Amount

= **$100,000**

ii $\frac{\text{Payroll Costs}}{0.60}$

$\frac{\$60{,}000}{0.60}$ = **$100,000**

iii (Allowable Costs Spent (a) – Total Salary/Hourly Wage Reductions (b)) x FTE Reduction Quotient (c)

$\left(\left(\begin{matrix}\$60{,}000\\+\\\$25{,}000\end{matrix}\right) - \$2{,}000\right) \times \frac{6}{\text{Lesser of }(10,\ 11)}$

($85,000 – $2,000) x 60% = **$49,800**

Amount forgiven = smallest of (i), (ii) or (iii)

Loan remaining = $50,200

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iii *1. If FTE safe harbor is met by restoring FTEs (including any exceptions) to 11 by December 31, 2020*

($85,000 – $2,000) x 100% = **$83,000**

2. If FTE safe harbor is met by restoring wages of the FTEs in full by December 31, 2020

($85,000 – $0) x 60% = **$51,000**

3. If both safe harbors are met by restoring FTEs and wages in full by December 31, 2020

($85,000 – $0) x 100% = **$85,000**

Amount forgiven = smallest of (i), (ii) or (iii) which would be (iii) for all 3 scenarios. Scenario 1 is $83,000 forgiven and loan remaining = $17,000; Scenario 2 is $51,000 forgiven and loan remaining = $49,000; Scenario 3 is $85,000 forgiven and loan remaining = $15,000

PPP Loan Forgiveness Illustrative Example (5/5) – Increase in FTEs

The scenario

- i Loan amount: **$100,000**
- Avg. monthly payroll: $40,000
- After COVID-19, an additional FTE was brought on board
- The new avg. monthly payroll with 6 FTEs is $45,000
- ii a1 **$90,000 spent on payroll over the covered period**
- a2 Other allowable costs over 8 weeks: $25,000
- b **The business did not decrease wages by more than 25%**
- c **Determine the average number of Full Time Equivalents (FTEs)** for three time periods
  1. 24 week period after loan funding: **12**
  2. Feb 15 – June 30, 2019: **10**
  3. Jan 1 – Feb 29, 2020: **11**

NOTE: Not a seasonal employer

- Businesses are given an option between 2 and 3 above. It is recommended to choose the smaller figure to maximize forgiveness

Loan forgiveness is the minimum of (i), (ii) or (iii)

i Loan Principal Amount

$\boxed{= \$100{,}000}$

ii $\dfrac{\text{Payroll Costs}}{0.60}$

$\dfrac{\$90{,}000}{0.60}$ $\boxed{= \$150{,}000}$

Amount forgiven = smallest of (i), (ii) or (iii)

Loan remaining = $0

iii $\left(\underset{a}{\text{Allowable Costs Spent}} - \underset{b}{\text{Total Salary/Hourly Wage Reductions}}\right) \times \underset{c}{\text{FTE Reduction Quotient}}$

$$\left(\left(\$90{,}000 + \$25{,}000\right) - \$0\right) \times \frac{12}{\text{Lesser of }(10,\ 11)}$$

$$\left(\$115{,}000 - \$0\right) \times 100\% \quad \boxed{= \$115{,}000}$$

(not to exceed 100%)

PPP Loan Forgiveness Takeaways

- It is likely additional guidance and adjustments to Loan Forgiveness rules will be forthcoming
- Many open questions regarding strategies and specifics regarding allowable costs remain
- It is important to consult your tax and legal advisors before implementing anything that may be outside of your normal course of business

Information is as of June 8, 2020 per Treasury Department's PPP Extension Act and Treasury's Press Release

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Planning & the CARES Act

Brad Dillon
Senior Wealth Strategist

Cares Act Tax Law Provisions

- Get your basic affairs in order
- Employee Retention Credit
- Net Operating Losses
- Corporate Unused AMT Credits
- Business Interest Expense Deductions

Estate Planning: the Time is NOW

- Deferral of Employer Share of Social Security Taxes
- Gift and Estate Tax Exemptions at All-Time High and Might Not Last
- Asset Values Across Many Asset Classes are Down
- Interest Rates are at an All-Time Low
  - For June, the mid-term AFR rate is 0.43%
  - For June, the 7520 rate is 0.6%

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US Economic Outlook

Brian Rose, Ph.D.
Senior Economist Americas

June 8, 2020

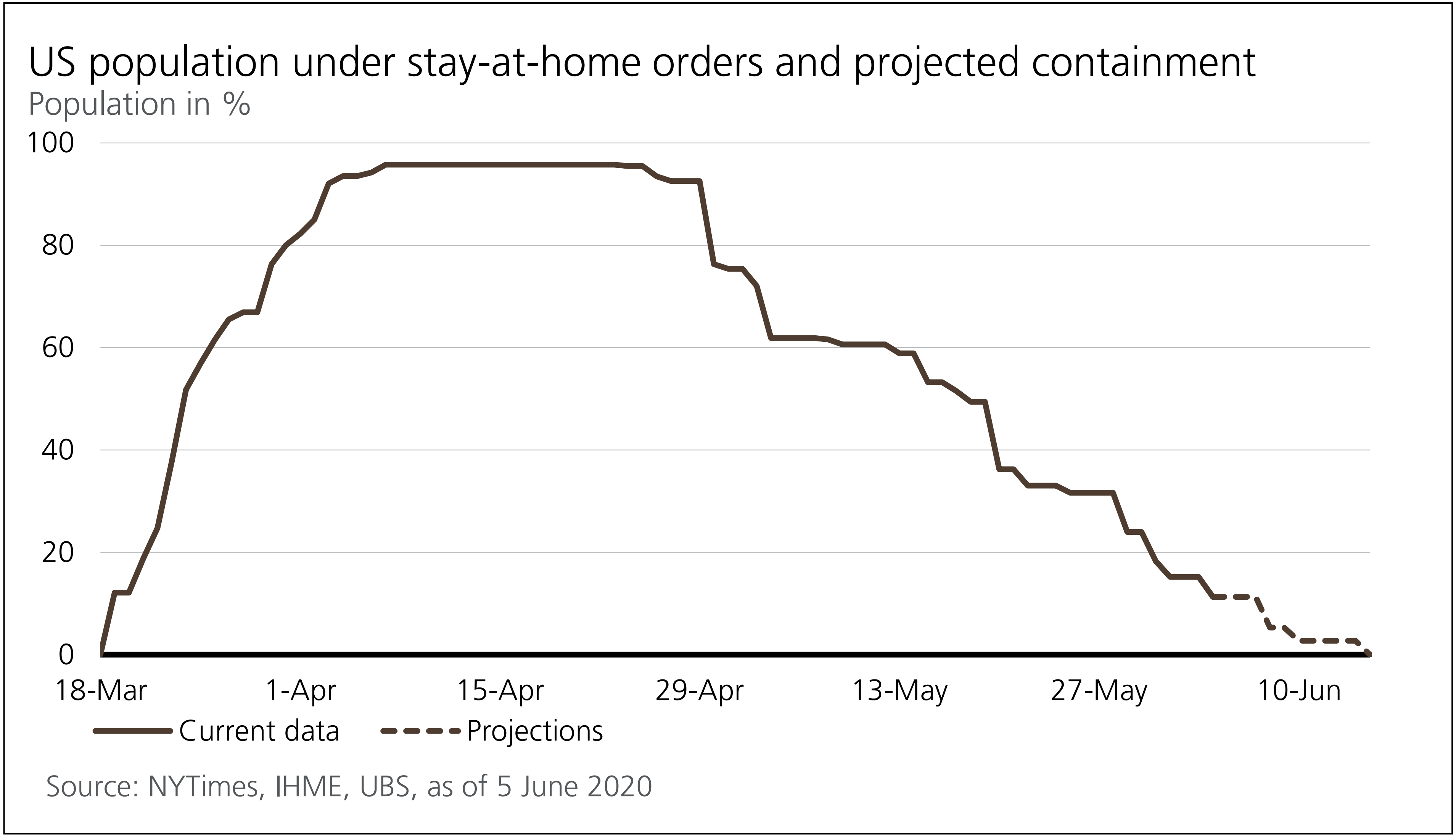
How long to reach pre-pandemic GDP levels?

- Economic activity is clearly picking up

- Entering the most crucial period

- A full recovery requires a vaccine

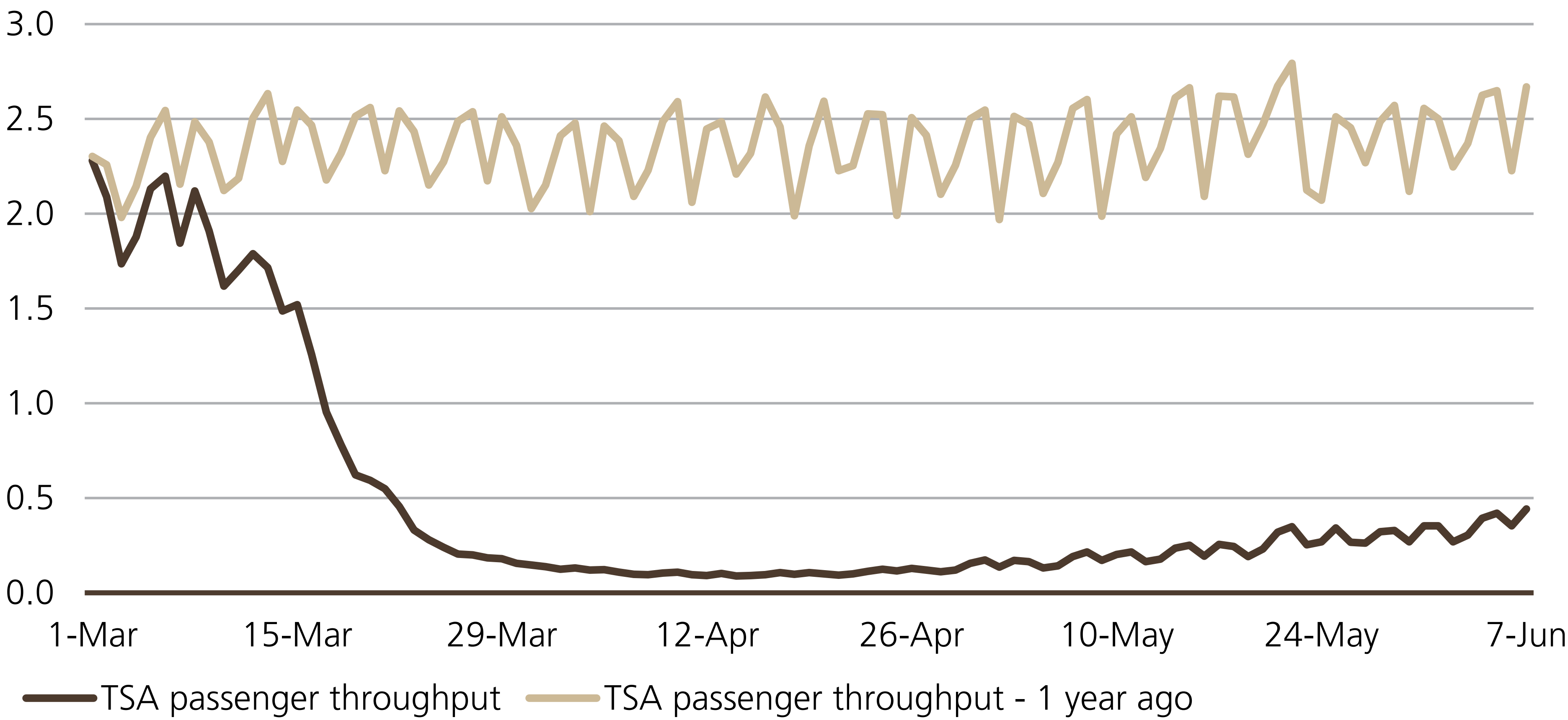
Activity rebounding as lockdowns end



More people are flying

Total TSA passenger throughput

Passengers in millions



Source: TSA.gov, UBS, as of 8 June 2020

Fiscal and monetary policy also helping

- PPP loans, government checks, enhanced unemployment benefits
- Fed cut rates to zero, expanding balance sheet
- Fiscal thrust will weaken without further action

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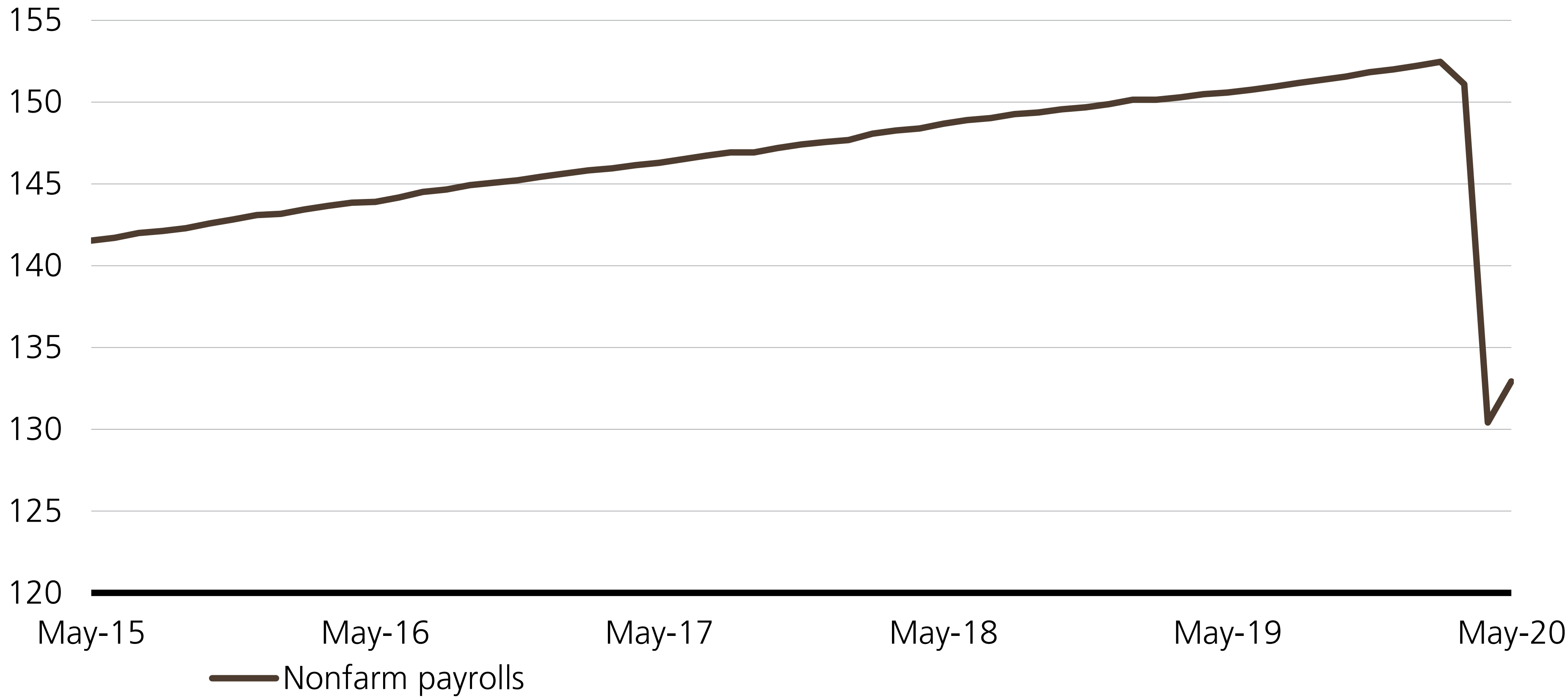
Labor markets hold the key

Surprise rebound in May payrolls

Nonfarm payrolls, seasonally adjusted in millions



Source: Bloomberg, UBS, as of 5 June 2020

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Conclusion

1 **Base Case**

- Uncertainty makes it more difficult for businesses to hire and invest
- Full recovery will take at least 2 years

2 **Upside Case**

- Vaccine available soon and quick return to business as usual
- GDP back to pre-pandemic peak by end-2021

3 **Downside Case**

- Political dysfunction or second wave of COVID-19 derails the recovery

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Version 06/2019. CIO82652744

IS2003602