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### **What is a full time equivalent (FTE)?**

FTE is considered an employee who works 40 hours per week.

The eligibility tests to apply for PPP were based on headcount, but the forgiveness eligibility is based on the FTE concept. Every employee who works 40 hours per week is 1 FTE.

### **What happens if an employee works less than 40 hours a week?**

There are two ways to calculate FTE for employees who work less than 40 hours per week:

1. Calculate what percentage of 40 hours the employee worked. Take the number of hours worked and divide by 40, then round up to the nearest tenth. For example, an employee who worked 30 hours per week equals 0.8 FTE.
  1.  $30 / 40 = 0.75 \rightarrow 0.8$
2. Or, use what the SBA calls the “simplified method.” For every employee that worked less than 40 hours per week, assign them 0.5 FTE.

### **If an employee works more than 40 hours, does that count as more than 1 FTE?**

No. Employees are capped at 1 FTE equivalent, whether they worked 40 hours per week or 60.

### **What is the reference period?**

The reference period is the span of time in which you calculate your average monthly FTE. You have two choices:

- February 15, 2019 – June 30, 2019
- January 1 2020 – February 29, 2020

### **What is the reference period for seasonal businesses?**

Seasonal business owners can use either the reference periods listed above, or any consecutive 12-week period between May 1, 2019 and September 15, 2019. Use the same method to calculate your average FTE as listed above.

### **What is a Covered Period and when does it begin?**

The Covered Period is the 8-week (56 day) timeframe in which your expenses must be incurred for them to be eligible for forgiveness. The Covered Period starts on the day you received your loan. If you received the loan on more than one date, the first day you received funds is when your Covered Period begins.

### **What is an Alternative [Payroll](#) Covered Period?**

The traditional Covered Period begins on the day you receive PPP funds, but the Alternative Payroll Covered Period allows borrowers to make the start date the first day of the next payroll period.



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For example, if you received your PPP funds on Monday, April 13 and your pay period begins Sunday, April 19, then your Alternative Payroll Covered Period begins April 19.

This effectively helps businesses fit more paydays into an 8-week window, so they can more easily meet the 75% payroll requirement.

### **What is the FTE Reduction Safe Harbor?**

The FTE Reduction Safe Harbor is a measure to protect employers from facing penalties that would jeopardize their forgiveness eligibility because of laying off employees.

If you've laid off employees due to coronavirus, you're still eligible for full forgiveness if you meet both of the following criteria:

1. You reduced your levels between the period of February 15, 2020 and April 26, 2020 (but not after).
2. You return your FTE employee levels to the same level as that of your pay period that included February 15, 2020.

### **What if I tried to rehire employees, but they didn't want to come back?**

You won't be penalized. The May 15, 2020 guidelines released offer an FTE Reduction Exception for this scenario, as well as a few others. You won't be penalized as long as you made a good-faith, written offer to rehire an employee during the Covered Period or your alternative period and they said no.

When asked what if an email is considered a "written offer," Great Lakes Regional Director of the SBA, Robert Scott said, "I would go a step further. I would make sure they reply to that email. If they don't reply to that email, I would send something via U.S. mail."

### **What if I terminated an employee for cause or if they resigned?**

You won't be penalized. The following scenarios are also covered under the FTE Reduction Exception.

1. An employee was [fired for cause](#) and not due to the pandemic
2. They resigned
3. They asked you to reduce their hours

### **What if I reduced employee pay instead of laying them off?**

If you reduced employee pay by more than 25%, you may risk a penalty. Let's take a closer look.

- You must compare the average pay from your Covered Period or alternative period to that of the reference period, but the reference period for pay reduction, January 1, 2020 to March 31, 2020, is **different from that of FTE** (February 15, 2019 to June 30, 2019 OR January 1 2020 to February 29, 2020).



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- If the average wage (calculated for each employee) is reduced by 25% or more, your forgiveness is reduced proportionate to the reduction in pay.

[CPA Christian Brim](#) gave this example:

- Employee's Average Wage Covered Period = \$52,000
- Employee's Average Wage Reference Period = \$80,000
- Reduction % = 65% (52/80)
- Forgiveness Reduction = \$1,230 ( $\$80,000 * 75\% = \$60,000$ .  $\$60,000 - \$52,000 = \$8,000$ .  $\$8,000/52*8 = \$1,230$ )

### **What happens if I incurred — but did not pay — an eligible expense in the 8-week Covered Period?**

You're fine. The newest guidelines released by the SBA on May 15, 2020 added language that gives leniency to eligible costs — payroll, rent, mortgage interest, and utility expenses — paid or incurred during the Covered Period or Alternative Payroll Covered Period.

### **What documentation do I need to substantiate payroll expenses?**

For payroll expenses, you need the following:

- Bank account statements or 3rd party reports showing compensation paid to employees
- Tax forms
  - Payroll tax filings reported (form 941)
  - State unemployment
- Statements showing contributions to health insurance or retirement plans

### **And non-payroll?**

For non-payroll expenses, you need the following:

- Mortgage interest statements or payment
- Lease agreement and payment or statement
- Utility invoices or payment