

WEBINAR

## COVID-19 Business Resources Webinar

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# PPP Loan Forgiveness + Next Steps

Carrie Sowders, CPA, Partner

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## Bobby LaCour

PARTNER, ALDRICH CPAs + ADVISORS

Bobby has over fifteen years of experience in public accounting while serving his clients in the government, nonprofit, and private middle-market sectors.

He specializes in providing consulting, attest and accounting services, in addition to an extensive background in internal control and operations analysis.



## Carrie Sowders

PARTNER, ALDRICH CPAs + ADVISORS

Carrie specializes in serving large and middle market companies, primarily in the consumer and industrial products sectors. Carrie has exclusively practiced in tax since beginning her career in 1998.

Prior to joining Aldrich in 2009, She spent a decade with Deloitte and oversaw the tax function of a publicly traded consolidated group of companies. Her background is rich in experience with multi-state operations, transactions, cross-border taxation and ongoing tax consulting and compliance.

Carrie received her degree from Washington State University and remains active with the AICPA and OSCP.

- CARES Act Assistance – PPP Loan
  - PPP Overview
  - Covered Period Examples
  - Other Forgivable Expenses
  - FTE Calculations
  - Forgivable Compensation Example
  - Essential Required Documentation for Spend
  - After Eight-Week Spend Period
- Tax Date Reminders
- What's New + Resources

*The information provided herein does not, and is not intended to, constitute legal advice; instead, all information, content, and materials available are for general informational purposes only. Readers of this presentation should contact their attorney to obtain advice with respect to any particular legal matter. The information was updated as of May 28, 2020 and we recognize it may change. Please contact your Aldrich Advisor for the most up to date information for your situation.*

### Forgiveness Process

- Submit application and supporting documentation to lender
- Lender reviews application and makes forgiveness decision within 60 days
- Lender provides decision to SBA and requests payment
- SBA remits forgiveness amount to the lender within 90 days
- Lender notifies borrower of forgiveness amount

- What payroll costs are eligible?
  - Paid or incurred during the 8 week covered or alternative covered period
- What is the covered period?
  - 8 weeks beginning with the date of disbursement
- What is the alternative covered period?
  - Elective 8 weeks beginning on the first day of the first pay period following the disbursement of PPP
  - Only available with biweekly or more frequent payroll schedules
  - Only applicable to payroll
- What is the definition of paid or incurred?

- Paid payroll costs
  - Payroll costs paid during your applicable period
  - Defined as when paychecks are distributed or ACH originated
  - Costs incurred during the last pay period are eligible for forgiveness if paid on or before the next regular payroll date
- Incurred payroll costs
  - When earned by the employee
  - Compensation for unworked hours would typically follow schedule employee would have worked

## COVERED PERIOD EXAMPLE



### **Option 1: Disbursement Date**

Loan Origination Date		April 16, 2020				
8 Week Covered Period End:		June 10, 2020				
Pay Cycle:		Bi-Weekly				
First Pay Date in 8-week Covered Period:		April 16, 2020				
First Pay for Wages Incurred:		3/29 - 4/11				
Cumulative Weeks Covered	Payroll #	Dates Worked	Date Paid	Covered Period Criteria		Forgiveness Eligible?
2	1	3/29 - 4/11	April 16, 2020	N	Y	Y
4	2	4/12 - 4/25	April 30, 2020	Y	Y	Y
6	3	4/26 - 5/9	May 14, 2020	Y	Y	Y
8	4	5/10 - 5/23	May 28, 2020	Y	Y	Y
	5	5/24 - 6/6	June 11, 2020	Y	N	N
	6	6/7 - 6/20	June 25, 2020	Partially	N	N
	7	6/21 - 7/4	July 9, 2020	N	N	N
Option 1 - payroll costs paid starting with disbursement date						



## ALTERNATIVE COVERED PERIOD EXAMPLE



### Option 2: Alternative Payroll Covered Period

Loan Origination Date April 16, 2020

Alternative Payroll Covered Period Start: April 26, 2020

8 Week Alternative Covered Period End: June 20, 2020

Pay Cycle: Bi-Weekly

First Pay Date in 8-week Covered Period: May 14, 2020

First Pay for Wages Incurred: 4/26 - 5/9

				Covered Period Criteria		Forgiveness Eligible?
Cumulative Weeks Covered	Payroll #	Dates Worked	Date Paid	Incurred	Paid	
	1	3/29 - 4/11	April 16, 2020	N	Y	N
	2	4/12 - 4/25	April 30, 2020	N	Y	N
2	3	4/26 - 5/9	May 14, 2020	Y	Y	Y
4	4	5/10 - 5/23	May 28, 2020	Y	Y	Y
6	5	5/24 - 6/6	June 11, 2020	Y	Y	Y
8	6	6/7 - 6/20	June 25, 2020	Y	N	Y
	7	6/21 - 7/4	July 9, 2020	N	N	N

Option 2: Payroll costs start with pay period starting after loan origination date

- All wages paid during the covered period qualify as long as they do not exceed \$100k on a prorated basis (\$15,385 for the period)
  - Amounts paid to furloughed employees
  - Bonuses
  - Hazard pay
- May be some flexibility around retirement costs
  - Payroll costs during the period could imply prior period contributions are permitted
- Owner employee compensation limitation
  - Limited to lesser of 8/52 of 2019 compensation or \$15,385
  - Schedule C filers are capped at amount of owner compensation based on 2019 net profit

Other expenses eligible for forgiveness (limited to 25%)

- Mortgage interest on real or personal property obligations
  - No advance payments
- Rent obligations on real or personal property
- Utility payments for distribution of
  - Electricity
  - Gas
  - Water
  - Transportation
  - Telephone
  - Internet Access
- Remember, these expenses must be in place as of February 15, 2020

- Forgiveness is reduced for reductions in full time equivalent (FTE) employee count
  - Calculated on a 40 hour work week
  - Each employee capped as one person (1.0 FTE)
  - Option to count any non full time employee as 0.5 FTE (must be applied consistently)
- Exemption where FTE count dropped between February 15<sup>th</sup> and April 26<sup>th</sup>, but is restored by June 30<sup>th</sup>
- Exemption where offer to restore was not accepted by employee
  - Offer must be for same compensation and hours
  - Need to inform state unemployment office of rejected offers

## FTE REDUCTION EXAMPLE



<b><u>FTE Reduction Example</u></b>							
Reference Period Option 1:	2/15/19 - 6/30/19			average # FTEs/Month:		12	
Reference Period Option 2:	1/1/20 - 2/29/20			average # FTEs/Month:		10	
Average FTE employees during the covered period or alternative payroll covered period:						8	
Total eligible expenses:				\$	1,000,000		
Reduction due to FTE reduction:			20%		(200,000)		
Available for Forgiveness:				\$	800,000		

- Forgiveness is reduced by the amount of any wage reduction more than 25% of any employee from the most recent full quarter
- Exemption where compensation is reduced between February 15<sup>th</sup> and April 26<sup>th</sup>, but is restored by June 30<sup>th</sup>
- Not applicable if employee earns more than \$100k
- No double-penalty of FTE and wage reduction for employee (limited)



## COMPENSATION REDUCTION EXAMPLE



### Salary Reduction Example (assume all were full-time during reference period)

Reference Period:	1/1/2020 to 3/31/2020							
	# Weekly Hours Worked during covered period	Bi-weekly wage during reference period	Bi-weekly wages limited	Bi-weekly wage during covered/alt payroll covered period	% wage rate reduction	Applied Reduction (in excess of 25%)	Total Eligible Wages Paid	Total Amount Reduced
Employee A	40	6,400.00	3,846.15	4,000	N/A	-	15,385	-
Employee B	40	2,000.00	2,000.00	1,400	30%	100	5,600	400
Employee C	40	1,600.00	1,600.00	1,200	25%	-	4,800	-
Employee D	20	1,600.00	1,600.00	560	30%	40	2,240	160
Employee E	40	6,400.00	3,846.15	4,000	N/A	-	15,385	-
Employee F	40	6,400.00	3,846.15	4,000	N/A	-	15,385	-
Employee G	40	6,400.00	3,846.15	4,000	N/A	-	15,385	-
Employee H	40	3,600.00	3,600.00	2,700	25%	-	10,800	-
Employee I	20	1,400.00	1,400.00	700	0%	-	2,800	-
						140	87,778	560
Total Wages eligible						87,778		
Less: reduction in forgiveness due to salary reduction						(560)		
Wages eligible for forgiveness						87,218		

- Payroll
  - Bank account statements or payroll reports documenting cash paid
  - Payroll tax filings
  - Payment receipts, statements for health insurance & retirement plans and invoices
- FTE
  - Average # of FTE's for various points
- Non-payroll Costs
  - Mortgage interest – amortization schedule, receipt or cancelled checks verifying payments
  - Rent & lease – copy of current lease agreement, receipt or cancelled checks
  - Utilities – copy of invoices, receipt, cancelled checks, or account statements





- Schedule A Worksheet
- Documentation supporting Schedule A Table 1 & 2
- Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by employees for reductions in work schedule
- Documentation around Schedule A Worksheet FTE reduction safe harbor



- Scope of review can include:
  - Eligibility
    - assuming this will only be reviewed for loans > \$2mm based
  - Amount and use of proceeds
  - Forgiveness Amounts
- Can be inspected anytime for up to six years after date loan is forgiven or paid in full
- Borrowers have opportunity to respond to SBA's questions in review
- Will be an appeal process related to eligibility – details to come in future interim final rule

## After the 8 Week Spend Period

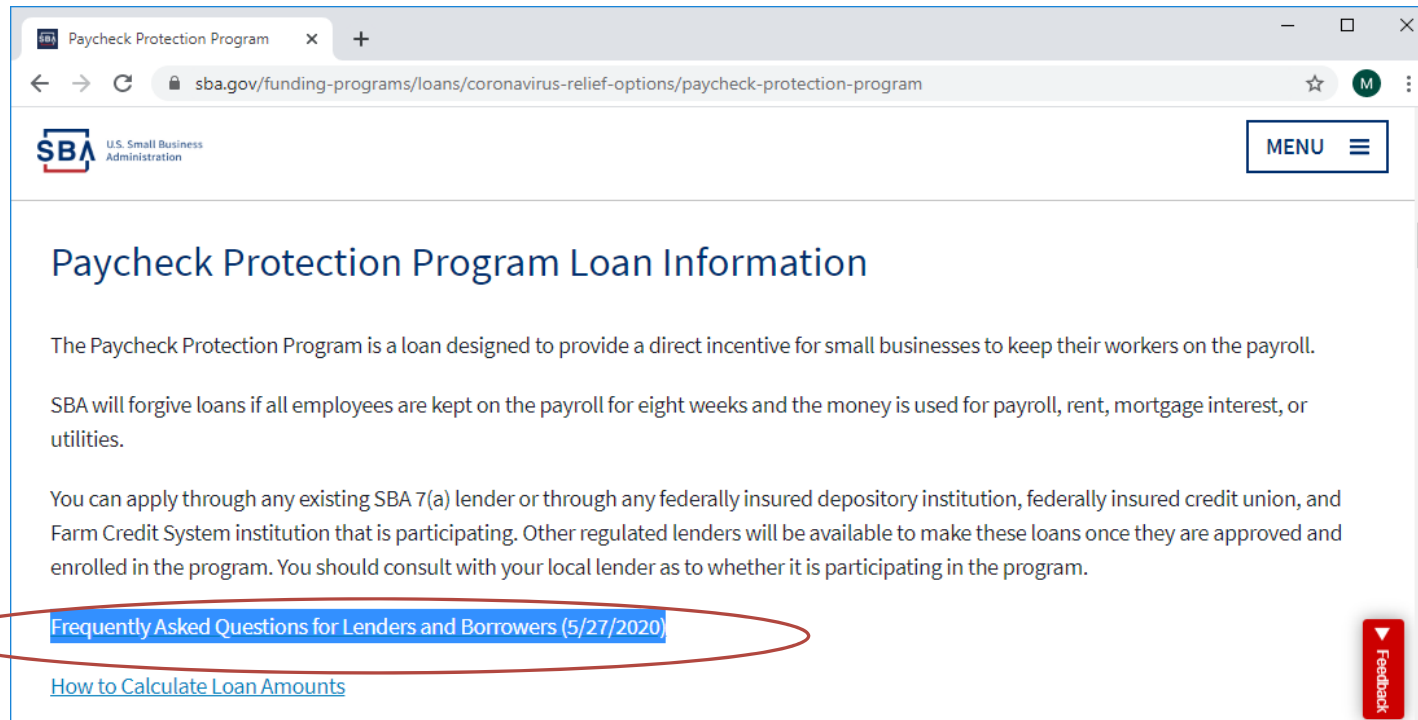
- Use remaining funds only for qualified expenses
- Expenses incurred beyond the 8 week period will not be eligible for forgiveness
- Prepare final analyses and prepare required documentation and certifications for bank/lender
- Continue to defer payment of the 6.2% employer Social Security Tax under Section 2302 of the CARES Act



## Final Considerations and Forgiveness Best Practices

- Repayment to extent not forgiven (deferred for 6 months)
- Retain all information related to PPP Loan request including computations, supporting documents for at least 7 years after loan repayment, or longer if required by law
- Forgiveness will be “other income” for financial statements under “Forgiveness of indebtedness income”
- Notice 2020-32 clarifies that you may not claim wages, rent, etc. as a tax deduction if the expenses were used to generate tax-exempt loan forgiveness. Results of forgiveness of a PPP Loan are not tax-deductible to prevent a “double tax benefit.”
- The HEROES Act

- SBA + Treasury Guidance Published:
  - Find updates at <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>



## Slide 21

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**CS3**

Could you please update?

Carrie Sowders, 5/27/2020

## TAX DUE DATES TO REMEMBER

- June 15<sup>th</sup>- OR 2<sup>nd</sup> Quarter 2020 Est.
- July 15<sup>th</sup>- Federal & State 2019 Tax Payments
  - Federal first & second quarter 2020 est.
- September 15<sup>th</sup>- Federal & State 3<sup>rd</sup> Quarter 2020 Est.
- Jan 15, 2021- Federal & State 4<sup>th</sup> Quarter 2020 Est.



# Let's Talk About It...



1. Aldrich Advisors: <https://aldrichadvisors.com/coronavirus/>
2. Industry Coronavirus Resources: <https://www.acec.org/conferences/coronavirus/> + <https://www.agc.org/coronavirus>
3. The CARES Act: <https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf>
4. SBA – Coronavirus Resources: <https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>
5. Federal Reserve – Main Street Lending Program: <https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>
6. AICPA Calculator: <https://www.aicpa.org/>



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