



You Received Your PPP Loan, What Now?



Agenda

- 1) What is the purpose of the PPP loan?
- 2) What are the PPP rules
- 3) What reduces the loan forgiveness amount
- 4) How do you track and account for qualifying expenses
- 5) Best practices and strategies to maximize amount to be forgiven
- 6) Questions and answers



Purpose of PPP

The purpose of the PPP program is to aid small business owners to continue to pay employees in lieu of unemployment. Effectively, the US Government is substituting itself for an 8 week period to pay your employees instead of the PA Unemployment system.

If your employees are not on unemployment, the US Government is assisting your to pay your employees during this unprecedented time.

Loan Forgiveness

Proper Use of the PPP Funds

- ▶ Covered Period
 - ▶ Eight (8) weeks after loan proceeds are received
- ▶ Allowable Expenditures
 - ▶ Payroll Costs (must be 75% or more of total loan expenditures)
 - ▶ Salary, wages, commissions, or similar compensation
 - ▶ Cash tips or equivalent
 - ▶ Vacation, family or sick leave (excludes payments under FFCRA)
 - ▶ Group health insurance
 - ▶ Retirement benefits
 - ▶ State or local payroll tax - this is your PUC expense for the 8 week period - note that the employer social security match is NOT considered
- ▶ Note that you CANNOT use any payments to 1099 subcontractors

Loan Forgiveness

Proper Use of the PPP Funds

- ▶ Mortgage interest or other loan interest for debt secured prior to February 15, 2020
- ▶ Rent (for lease/rent agreement was in effect prior to February 15, 2020)
 - ▶ No prepayments of future rent
 - ▶ This DOES include self rental if you own your own building and pay rent to a real estate entity - make sure you have a lease agreement as we believe this will be a required document
- ▶ Utilities
 - ▶ Electric, gas and water/sewer
 - ▶ Telephone (including cell phone)
 - ▶ Internet access
 - ▶ Trash (??)
- ▶ Non payroll expenses cannot exceed 25% of the PPP loan, if it does, that portion is not forgiven
- ▶ **We believe (at the moment) that payroll and utilities are for the amounts PAID during the 8 week period regardless of when it was incurred (cash basis). More clarity is needed from SBA on this issue.**

Loan Forgiveness

Reduction in Forgiveness

- ▶ Employee reduction
 - ▶ Full time equivalent (30 or 40hr per week) - which do you use? No guidance at this point - be consistent
 - ▶ Determine average FTE for:
 - ▶ Eight-week period following your loan funding (A)
 - ▶ February 15, 2019 to June 30, 2019 (B1)
 - ▶ And January 1, 2020 to February 29, 2020 (B2)
 - ▶ Divide A by B1 and B2. Take the larger number.
 - ▶ If your number is equal to or greater than 1, you successfully maintained your FTE
 - ▶ If your number is less than 1, you did not meet the FTE requirement and a portion of your loan will not be forgiven
- ▶ Update 5/4 - SBA indicates that if you offer a job at the former rate of pay and the employee declines it, you will get to count their FTE in your count. We think this is in response to employees taking higher unemployment instead of payroll. Will likely lead to the employee having issues with unemployment. Document, document, document.

Loan Forgiveness Reduction in Forgiveness

- ▶ Example 1: Company A
 - ▶ 40 FTE as of Feb 15, 2019 to June 30, 2019 (B1)
 - ▶ 35 FTE as of Jan 1, 2020 to Feb 29, 2020 (B2)
 - ▶ 20 FTE as of June 25, 2020 (average during covered period) (A)
 - ▶ $A/B1 = 20/40 = .5$
 - ▶ $A/B2 = 20/35 = .57$
 - ▶ If you do not rehire by June 30, 2020 the additional 15 FTE, then 43% (100-57) of your loan is not forgiven and becomes a 24 month, 1% interest loan
 - ▶ Even if you rehire by June 30, 2020, you may not meet the 75% salary requirement and a portion may become a repayable loan

Loan Forgiveness Reduction in Forgiveness

- ▶ Example 2: Company B
 - ▶ 40 FTE as of Feb 15, 2019 to June 30, 2019 (B1)
 - ▶ 35 FTE as of Jan 1, 2020 to Feb 29, 2020 (B2)
 - ▶ 35 FTE as of June 25, 2020 (average during covered period) (A)
 - ▶ $A/B1 = 35/40 = 88\%$
 - ▶ $A/B2 = 35/35 = 100\%$
 - ▶ Company meets the forgiveness rule for employee retention

- ▶ **For those of you who utilize Integra for your payroll, we are sending the FTE calculations for the 2 measurement periods. This will allow you to plan how to maximize your FTE count for maximum loan forgiveness.**

Loan Forgiveness Reduction in Forgiveness

- ▶ Pay requirements
 - ▶ Must maintain at least 75% of total salary
 - ▶ Requirement is individually assessed for every employee under \$100,000 in annual pay (\$3846.15 per biweekly pay period or \$1923.07 per weekly pay period - avoids owners from “loading up” their payroll)
 - ▶ If employee pay is less than 75% of pay they received in the most recent quarter before the Covered Period, the loan forgiveness is reduced by the difference between their current pay and 75% of the original pay
 - ▶ Pay reductions can be eliminated by June 30, 2020 if their pay was reinstated to full pay for prior period
- ▶ Rehire grace period
 - ▶ If you rehire staff that were laid off and reinstate any pay that was decreased by more than 25%, then your loan would meet requirements for forgiveness
- ▶ We expect further guidance on this issue

Loan Forgiveness Reduction in Forgiveness

- ▶ Example: Company C
 - ▶ EE #1 pay prior \$40,000 annual, pay during covered period \$35,000 annual
 - ▶ EE #2 pay prior \$25,000 annual, pay during covered period \$25,000 annual
 - ▶ EE#3 pay prior \$50,000 annual, pay during covered period \$25,000 annual
- ▶ EE#1 = $(35,000/40,000 = 88\%)$ - no issue for EE #1
- ▶ EE#2 = $(25,000/25,000 = 100\%)$ - no issue for EE #2
- ▶ EE#3 = $(25,000/50,000 = 50\%)$ - 50% of the wages paid during the covered period are not forgiven



Loan Forgiveness for Sole Proprietors and Partnerships

- ▶ Sole Proprietors - the loan forgiveness amount is based on your 2019 schedule C income (line 31) - defined as self employment income
 - ▶ For schedule C income less than \$100,000, take line 31 and multiply by 8/52
 - ▶ For schedule C income more than \$100,000, take \$100,000 and multiply by 8/52 - \$15,384 of your loan will be automatically forgiven.
 - ▶ AT THIS TIME, we do not believe you will need to draw the money out to qualify for forgiveness - the forgiveness is automatic based on your 2019 schedule C amount.

Loan Forgiveness for Sole Proprietors and Partnerships

- ▶ Partners - the forgiveness is based on your 2019 K-1 income - line 14A which includes ordinary income (box 1) + guaranteed payments (box 4c) - section 179 expense (box 12) - defined as self employment income
 - ▶ Same calculation - self employment income (limited to \$100,000) multiplied by 8/52
 - ▶ AT THIS TIME, we do not believe you will need to draw the money out to qualify for forgiveness - the forgiveness is automatic based on your K-1 income. We hope we're right!



Loan Forgiveness Recordkeeping Requirements

- ▶ Each lender will have their own requirement
- ▶ After covered period, borrower must submit to lender the following documentation:
 - ▶ Document verifying the number of FTE on payroll and their pay rates for the periods covered
 - ▶ Payroll reports from your payroll provider
 - ▶ Payroll tax filings (Form 941)
 - ▶ Income, payroll and unemployment tax filings with your state
 - ▶ Documents verifying eligible interest, rent, and utility payments (cancelled checks, payment receipts, account statements, loan and rent contracts, general ledger reports)



Loan Forgiveness Recordkeeping Requirements

- ▶ Certification from borrower that:
 - ▶ Documents provided are true and correct
 - ▶ The amount for which forgiveness is requested was used to retain employees, make interest payments, rent payments and utility payments
 - ▶ Any other documents that the SBA or lender require
 - ▶ Lender has 60 days to issue a decision on the loan forgiveness application

- ▶ We expect that you will need our assistance with the loan forgiveness application. Please contact us.

Loan Forgiveness

Proper Use of PPP Funds - Tips

- ▶ 2 General Strategies - create your plan now. Know what your FTE counts were for the 2 measurement periods - we are providing!
- ▶ Remember - this is 56 days (8 weeks) NOT 2 months - lay out your 56 day cycle and know the end date.
- ▶ Strategy 1 - maximize your PPP loan forgiveness by using the PPP loan proceeds for their intended purpose - pay employees (even if they don't work), pay your rent, utilities and other allowable expenses
 - ▶ Issue - what happens if your employees don't want to be paid by you because their getting more money on unemployment? Uh oh....
- ▶ Strategy 2 - minimize your cash out now and use the proceeds to get back to "normal"
 - ▶ Generally may be used if you are completely shut down and have no idea when you will be allowed to open
 - ▶ Forgiveness will be limited but you will only have to pay the PPP loan back over a 24 month period at 1% interest.
 - ▶ Use the proceeds in any manner to support your business.

Loan Forgiveness

Proper Use of PPP Funds - Tips

- ▶ Expect that some of your PPP loan will NOT be forgiven.
- ▶ Create a special folder to begin to accumulate the info we'll need to submit for the loan forgiveness, i.e. utility bills, rent payments, etc.
- ▶ Payroll
 - ▶ Time your payroll pay cycle to maximize the eight-week period especially for weekly payrolls. You must ensure you have 8 weekly payrolls included even if you have to accelerate the final payroll.
 - ▶ Pay or fund your employer retirement plans during this time frame - even if the matching funds are not due till year end
 - ▶ Pay bonuses that are ordinary and necessary
 - ▶ Pay "hazard pay" during this time to help offset the loss of the enhanced unemployment
 - ▶ Replace laid off employees - possibly with family members who can perform the job function
- ▶ Rent and utilities
 - ▶ Make certain to retain copies of invoices and cancelled checks or copies of bank statements showing payment
 - ▶ Paying past due rent - awaiting guidance to see if this is an allowable expense



Loan Forgiveness - Taxability

Newest development from the IRS - released 4/30/20

The IRS released Notice 2020-32 to address the issue of taxability of the PPP loan forgiveness. The SBA had indicated that any PPP loan forgiveness would be tax free. The IRS intervened by indicating that under the provisions of code section 265, any expenses paid with non taxable income are non deductible. Bait and switch!!

This essentially negates the non taxability of the PPP loan forgiveness. While the loan forgiveness is not taxable, the expenses paid with these funds is non deductible.

More to follow on this topic - discussion in Congress has already started which MAY carve out an exception to this rule for the PPP loan forgiveness.



Questions????

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