



SKR+CO WEBINAR SERIES

APR 28 | Planning for PPP Forgiveness + Self-Employed Applications



Welcome + Webinar Tips



Marjorie Noleen

Marketing + Client
Relations Director

Webinar Facilitator

- CPE credit
- Slide handouts are available in GTW and posted to our website.
- Attendees are in listen-only mode.
- Question Panel:
 - Please post using the question panel.
 - We will pause to answer questions periodically.
 - You may also email questions to communications@skrco.com
 - There will be time for questions at the end as well.
- Webinar is being recorded.

Agenda



SKR+CO and Coronavirus Updates



Planning for PPP Forgiveness



Self-Employed PPP Applications



Q+A

Stockman Kast Ryan + Company



- Business + Individual Tax
- Audit + Assurance
- Bookkeeping + QuickBooks
- Interim CFO Services
- Estate + Trust Planning
- Litigation Support
- Business Advising
- Business Valuations

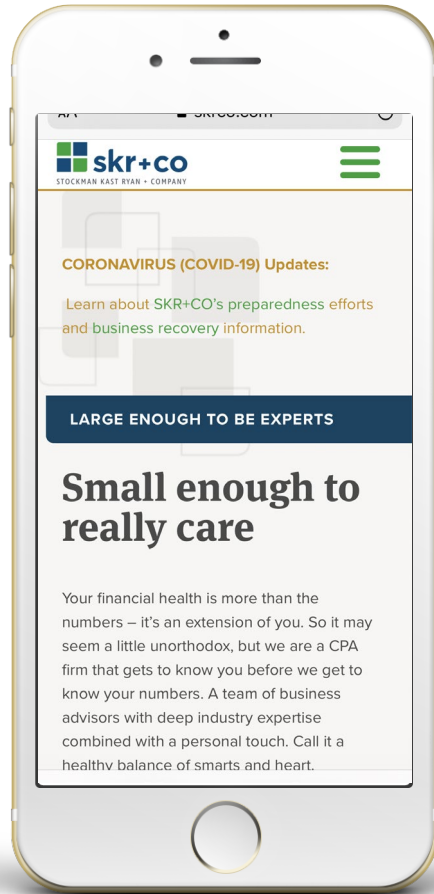
**A TOP ACCOUNTING FIRM,
MOUNTAIN REGION**

Accounting Today
2017, 2018, 2019, 2020

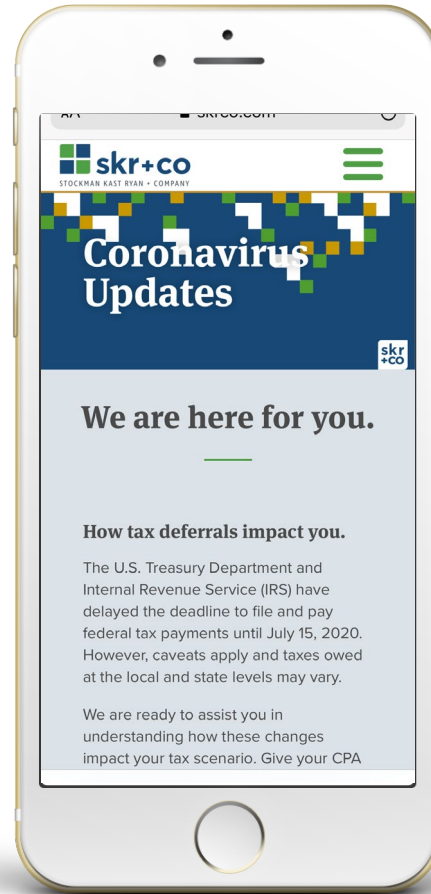
Committed to This Community



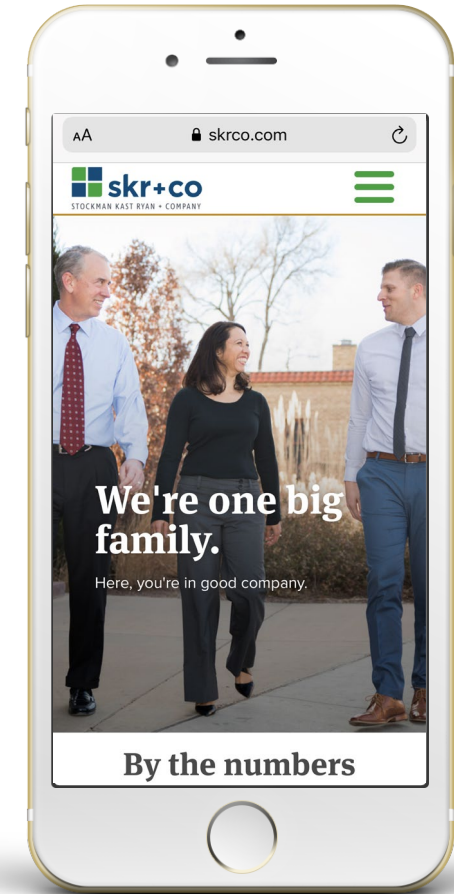
SKR+CO and Coronavirus Updates



Communication
Channels



Coronavirus
Updates



SKR+CO
Operations

PPP LOAN FORGIVENESS

Subject to change based on expected guidance from the SBA

Jordan Empey, CPA
Tax Partner



Three Integral Parts to Forgiveness

Part I

Pay eligible costs during the 8-week covered period.

- Includes that 75% of the costs are spent on “payroll” as defined by the CARES Act.

Part II

Maintain FTE count during 8-week covered period as compared to the following periods (borrower’s choice):

1. **Average FTE from 2/15/19 through 6/30/19, or**
2. **Average FTE from 1/1/20 through 2/29/20**

Part III

Reduction in compensation in excess of 25%, per employee, reduces forgiveness

Ordering of Parts I, II and III to be determined in future guidance

Part I – Eligible Costs

- **8-Week covered period eligible costs:**
 - Payroll costs (75%), and to pay the following obligations in effect on Feb 15, 2020 for mortgage interest, rent and utilities
- **Data to calculate for the covered period**
 - Gross payroll, that includes wages, bonuses, tips, PTO or other paid leave, severance (limited to \$15,385) ($\$100,000 * 56/365$)
 - Health care costs for employees
 - Contributions to qualified retirement plans
 - Payments of state/local taxes based on compensation
 - Self-employment income of partners or owners operating as a self-employed individual
 - Amount paid on leases, mortgages and utility contracts that predate Feb 15, 2020 and are business expenses

Part I – Questions on Eligible Costs

- **What interest is included?**
 - Statute includes debt on real and personal property but not capital leases.
- **Must “utilities” be provided by a public utility company, an organization that maintains the infrastructure for a public service and are subject to regulation?**
 - If no, can internet, cell phone, TV cable, trash collection, etc. be counted in addition to electricity, water, gas and sewer?
- **“Costs incurred and payments made” during the covered period are eligible for forgiveness. How should “costs incurred” be applied?**

Part I – Questions on Eligible Costs, cont.

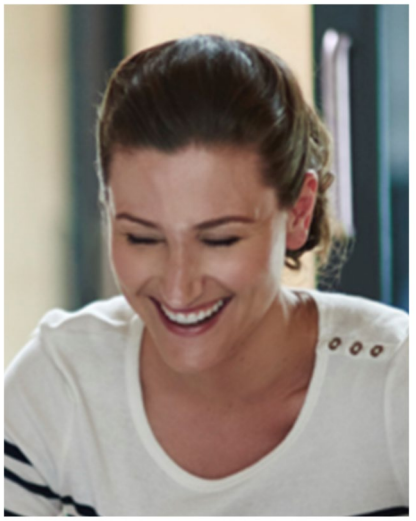
- Can I bonus my employees?
- Can I pay my employees if they are not working full time?
- **Start planning for when your specific pay periods fall within your covered period.**
 - Can I run a short pay period if my normal pay period runs over the end of the 8-week covered period?
 - What if I received my loan on 4/24 and payroll is due 4/27 for the prior two weeks?
- **What about related party rent?**
- **“Mortgage debt” versus “other debt” as allowable but not forgivable.**
- **The 8-week covered period is 56 days from funding date and starts on the day you are funded.**



Meet Jane

Business owner who
received a PPP loan.

Forgiveness of Loan: Amount Forgiven



Type of payments during 8-week period	Amount
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Payroll	(\$95,000)
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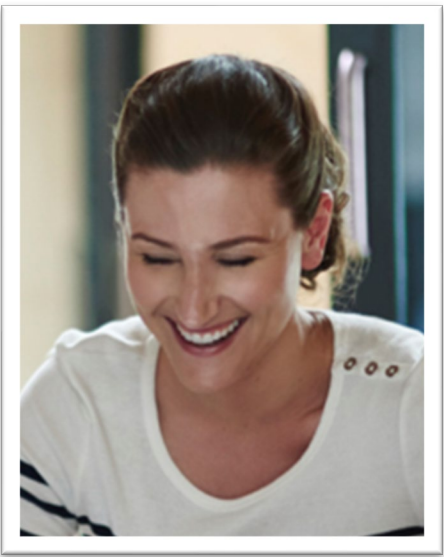
Rent	(\$10,000)
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Utilities	<u>(\$12,000)</u>
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Total payments	\$117,000
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PPP Loan Received	\$125,000
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Amount not forgiven	\$8,000
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Part I – 75/25 Test

Payroll costs

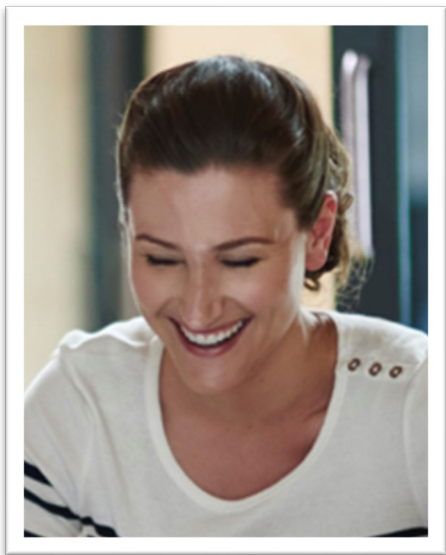
Salary, wage, comm., vacation, sick leave, parental (capped at \$100k/EE)	\$	75,000	
Payments for provision of group health benefits, including premiums	\$	1,500	
Retirement benefits	\$	100	
State and local taxes on compensation of employees	\$	10	
Total payroll	\$	76,610	61.29%
Interest on covered mortgage	\$	-	
Covered rent	\$	28,000	
Covered utilities	\$	20,390	
Total non-payroll	\$	48,390	38.71%
Potential loan forgiven	\$	125,000	

Reduction for 75% threshold for payroll costs

Loan forgiveness cap 75/25 split (\$76K/75%)	\$	102,147	
Reduction amount	\$	22,853	
Loan amount	\$	125,000	
Loan amount to be repaid	\$	22,853	

Part II – Maintain FTE Status

- **Can start today working on calculations for these periods:**
 - Average FTE from 2/15/19 through 6/30/19 or
 - Average FTE from 1/1/20 through 2/29/20
- **Start to lose part of the forgiveness if FTE count during the 8-week covered period is fewer than the pre-COVID-19 periods above.**
- **Next start the planning process of determining the projected FTE count for your specific covered period.**
- **If planning to rehire employees need to measure employee FTE counts on 2/15/20, 4/26/20 (30 days after enactment of the CARES Act) and 6/30/20.**



Forgiveness of PPP Loan

- Jane can calculate her historical average number of employees in two ways:
- **Option A:** Average number of FTEs from 2/15/19 to 6/30/19
- **Option B:** Average number of FTEs from 1/1/20 to 2/29/20

Timeframe (borrower can elect timeframe to use)	Average number of FTEs per month
Option A: 2/15/19 to 6/30/19	11
Option B: 1/1/20 to 2/29/20	13
Covered Period (8-week testing period)	12

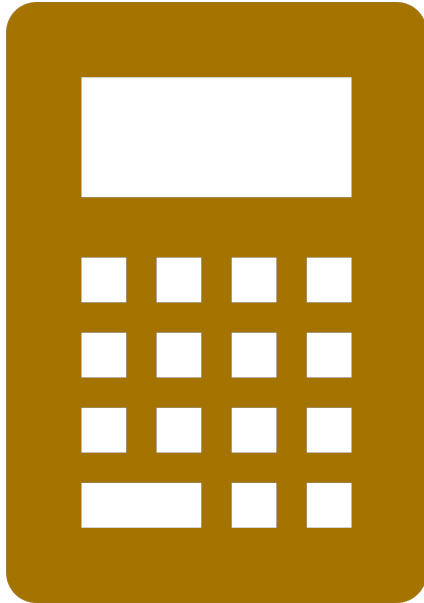
Jane will want to choose the method that shows she retained the most employees, **Option A**.

Why use Rules from the Affordable Care Act?



- Why are we applying IRC 4980H when Section Sec. 1106 of the Act does not define the term “full-time equivalent employee”.
- Application of “rules of statutory construction”.
 - When a statute is ambiguous, see if the same terms were used anywhere else in the same statute and use that same meaning to clear up any ambiguity assuming if Congress said “full-time equivalent employee” in one part of a statute, then they used the same term again in another part of the statute, they intended the same meaning in both places, unless they clearly said differently.

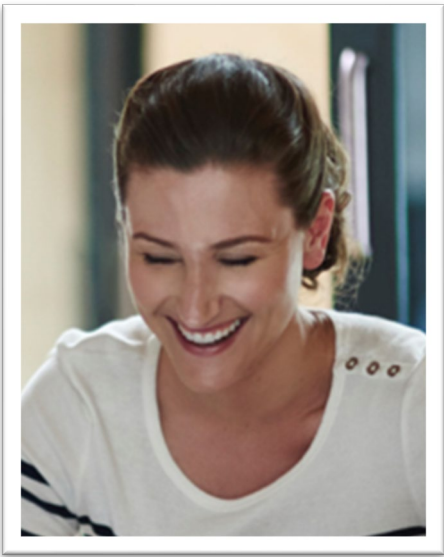
IRC 4980H Principals for FTE Calculations



- A full-time employee is someone who normally averages at least 30 hours per week or 130 hours per month.
- Hours for bi-weekly, semi-monthly or annual pay periods are not provided, but PPP loan forgiveness requires FTEs be determined for each payroll period.

FTE Calculations

Step 3 - Calculate FTEs for the Covered Period							
Enter the end date of the first pay period during the Covered Period (8-week period)				4/21/2020			
				Sum all hours during the pay period worked by part-time or variable hour employees. Do not count any hours in excess of 60 for any one employee.	Number of part-time/ variable hours FTE employees	Total FTE employees	Monthly Average
	Bi-Weekly	Pay Period End Date	Enter the number of employees hired as full-time or working at least 60 hours per pay period				
Payroll period number	1	4/21/2020	25		-	25	25.00
Payroll period number	2	5/5/2020	25		-	25	
Payroll period number	3	5/19/2020	30		-	30	27.50
Payroll period number	4	6/2/2020	30		-	30	30.00
				FTE Average for the Covered Period			27.50



FTE Test

Forgiveness Reduction - FTE Test

Loan amount	\$	125,000
Potential loan forgiveness	\$	102,147
Monthly average FTEs during 8-week covered period		8

Borrower's choice

Option A: Monthly average of FTEs, 02/15/19 to 06/30/19	11
Option B: Monthly average of FTEs, 01/01/20 to 02/29/2020	13
Borrower's choice	11
Reduction % of FTE's	-27%
FTE reduction	\$ (27,858)
Potential loan forgiven	\$ 74,288
Loan amount to be repaid	\$ 50,712

Part III – Reduction of Salary in Excess of 25%

- Currently believed to be measured on a per employee basis, whereas the FTE count is currently more flexible on the specific employee.
- Employees earning more than \$100K for any pay period during **2019** are currently removed from this forgiveness test.
 - This becomes **important as you factor in potential salary reductions**
 - Believe this is a per pay period calculation for the \$100K, think bonused and commission-based
- employees with variable pay.
 - **Monthly - \$8,333.33,**
 - **Bi-Monthly - \$4,166.66**
 - **Bi-weekly - \$3,846.16**
- Need to identify wages paid to employees during Q1 of 2020 that are no longer there in Q2 for any reason.
- Issue with measuring a 13-week Q1 period to an 8-week covered period, not apples to apples and expect a change issue through guidance.

Part III – Reduction of Salary in Excess of 25%

Loan Amount \$125,000	2019 Annualized pay from a single pay period	2020 Annualized pay from most recent 8-week period prior to covered period	Compensation during most recent quarter de-annualized to 8-week period	Actual compensation during 8-week covered period	Total compensation reduction	Reduction in excess of 25%	Reduction amount	Conclusion
Potential Loan Forgiveness \$102,147								
John Denver	\$67,000	\$62,000	\$12,000	\$7,000	-42%	-17%	\$ (2,000)	Eligible for reduction
John Elway	\$220,000	\$270,000	\$41,000	\$18,000	-56%	-31%	\$-----	No reduction: over \$100k annualized wages in 2019
Tim "Toolman" Allen	\$91,000	\$97,500	\$18,000	\$13,500	-25%	0%	\$-----	No reduction: % decrease was less than 25%
Ryan Tedder	\$101,000	\$72,250	\$10,750	\$2,750	-74%	-49%	\$-----	No reduction: over \$100k annualized wages in 2019
John Kerry	\$72,250	\$101,000	\$10,750	\$2,750	-74%	-49%	\$ (5,313)	Eligible for reduction; >\$100k was in 2020, not 2019
Duane Chapman	\$61,000	\$65,000	\$15,000	\$-----	-100%	-75%	\$ (11,250)	Eligible for reduction; quits before coverage period begins

A Word on Guidance



Forgiveness: Top Ten Things we **DON'T** Know!

One

What does it mean when it says “costs incurred and payments made” within the 8-week covered period will be forgiven?

Two

How do the two “covered periods” interact?

Three

Are payments made with forgiven funds deductible?

Four

Can a business pay interest on non-mortgage debt during the covered period and have it forgiven?

Five

Can self-employed taxpayers have mortgage interest/rent/utilities forgiven, or can't they?

Source: Forbes, Toni Nitti

Forgiveness: Top Ten Things we **DON'T** Know, cont.

Six

What are we doing about federal income tax withholding and payroll taxes?

Seven

Can a business have self-rental payments forgiven?

Eight

Can someone explain how we determine the reduction in forgiveness amount if a business cuts employees?

Nine

How does the reduction in forgiveness caused by salary reduction work?

Ten

Who makes the call?

Source: Forbes, Toni Nitti

Breaking News

POLITICS

Small business loans above \$2 million will get full audit to make sure they're valid, Mnuchin says

PUBLISHED TUE, APR 28 2020 • 8:46 AM EDT | UPDATED MOMENTS AGO

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 **Lauren Hirsch**
@LAURENHIRSCH

KEY POINTS

- Treasury Secretary Steven Mnuchin told CNBC the government will perform a full audit on any company taking out more than \$2 million from the small business loan program.
- The program faced backlash after several public companies disclosed they had taken out the loans, which were intended to help small businesses with fewer than 500 employees.



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TRENDING NOW

FAQ #31: Do businesses *owned by large companies with adequate sources of liquidity* to support the business's ongoing operations qualify for a PPP loan?

- In addition to reviewing applicable affiliation rules to determine eligibility, all borrowers must assess their economic need for a PPP loan **under the standard established by the CARES Act and the PPP regulations at the time of the loan application.**
- Although the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary.
- Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that **“[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”**
- Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.
- **For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification.**
- Lenders may rely on a borrower's certification regarding the necessity of the loan request. Any borrower that applied for a PPP loan prior to the issuance of this guidance and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith.



Self-Employment Applications

Presented By: Jordan Empey, CPA

PPP for Self-Employed

- **How do I calculate the maximum loan amount?**
 - No employees – 2019 Form 1040 Schedule C line 31 net profit amount capped at \$100K, divide by 12 and then multiple by 2.5 = maximum of \$20,833
 - With employees – same as above, plus wages and benefits similar to business PPP application
- **What if I haven't filed my 2019 Form 1040 yet?**
 - If you haven't filed yet, you must provide the Schedule C with your PPP loan application
- **What else should I provide?**
 - 2019 1099-MISC, invoice, bank statement or book of record that establishes you are self-employed

PPP for Self-Employed

- Self-employed (SE) individuals will need to rely on the 2019 Schedule C and cannot use the 12-month period prior to the SBA PPP loan.
 - Additional guidance coming for new SE businesses
 - Still need to use 75% of loan proceeds for payroll costs, same as business loan.
- Owner compensation forgiveness will be based off (8/52) of the 2019 net profit from Sch. C
- Does not appear that “covered benefits” will be allowed for owners, very inconsistent with PPP business loan.
- You must have claimed a forgivable item on your 2019 Form Sch. C to count those during the 8-week covered period. If utilities weren’t claimed on your 2019 Form Sch. C, then you cannot claim during the covered period.

Discussion + Questions



Thank you!

Go to skrco.com/client-center/CoronavirusUpdates for
webinar materials.