

WESTBILT
FINANCIAL GROUP

WEBINAR: COVID-19 RELIEF

MAY 21 | Received Your PPP Loan, Now What?

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+CO

Webinar Tips



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Associate

Webinar Facilitator

- This slide deck is available in GTW and will be posted to this website: www.skrco.com/coronavirusupdates
- Attendees are in listen-only mode.
- Webinar is being recorded.
- Question panel:
 - Please post using the question panel.
 - If time permits, we will pause to answer questions periodically.
 - There will be a Q+A at the end.
- This presentation is for educational purposes only and is not an offer to buy or sell an investment.

Agenda



Welcome + Company Introductions



Market Update



Planning for PPP Forgiveness



Preparing for the New Post-COVID Normal



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

Westbilt Financial Group



- Comprehensive Financial Planning
- Retirement Income Planning
- Business Financial Planning
- Investments
- Insurance

Today's Speakers



**Buddy
Newton, CPA, CVA**

Senior Tax Manager



**Peter D.
Horwitch, CLU**

Principal +
Financial Advisor



**Kathleen E.
Owings, LACP**

Principal +
Financial Advisor



Market Update

Peter D. Horwitch, CLU



Current Thoughts + Impacts



- States Re-opening
- The COVID fight
- Federal response
- Economics



PPP Loan Forgiveness

Subject to change based on expected guidance from the SBA

Buddy Newton, CPA, CVA

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

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

Part III

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

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



Updated with guidance on 5/15/20 that reduction in Compensation is calculated prior to FTE reduction

- **8-Week (56 day) 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 (25%) – **Not a catch-all provision**
- **Data to calculate for the covered period**
 - **Gross** payroll, that includes wages, bonuses, tips, PTO or other paid leave, severance (limited to \$15,385 for 8-week period) ($\$100,000 * 56/365$) – does not include leave under Families First Coronavirus Response Act
 - **Employer** health care costs for employees, contributions to qualified retirement plans, payments of state/local taxes based on compensation – **In addition to gross payroll**
 - Does not include employee contributions because already included in gross compensation
 - Amount paid on leases, mortgages and utility contracts that predate Feb 15, 2020 and are business expenses

- **For individuals with self-employment income who file a Schedule C**
 - The Administrator, in consultation with the Secretary, has determined that it is appropriate to limit loan forgiveness to a proportionate eight-week share of 2019 net profit as reflected in the individual's 2019 Form 1040 Schedule C.
- **Owner/employee, general partners, self-employed taxpayers**
 - These individuals appear to be removed from FTE calculation and not treated as employees
 - Any expenses for non-payroll costs appear to be **not** forgivable
- For this group of individuals no increase is allowed during the 8-week Covered Period in 2020. The forgivable amount is the lesser of the amount paid during the 8-week Covered Period or the same ratio in 2019 (8/52)
 - *Example* - \$75,000 of wages paid in 2019. $\$75,000 * (8/52) = \$11,538$ If the owner is making \$100,000 in 2020, the 8-week covered period salary amount is \$15,385. The limitation is \$11,538 for the forgivable amount.
- If the individual in the above example was making \$100,000 in 2019, then the forgivable amount would be the max of \$15,385

- **Under the general rule the covered period starts on the PPP Loan disbursement date**
 - If loans were distributed on Tuesday, April 20, then that marks the beginning of the covered period and the last day of the covered period would be Monday, June 15
 - Requires proration for any payroll periods that cross the first and last day of the Covered Period
- **Alternative Covered Period (applicable to payroll expenses)**
 - Allowed for taxpayers who have *weekly* or *bi-weekly* payroll periods
 - The eight-week period begins with the first day of the first pay period following the PPP Loan disbursement date
 - Avoids messy allocation of payrolls under the general rule
 - **Must** use in all areas where it is an option in calculations
- **Covered Period for non-payroll costs unchanged**

Payroll Costs Paid or Incurred

- Payroll costs are **paid** on the day paychecks are distributed or the direct deposit transaction is initiated
 - Unsure how long previous wages not paid prior to loan disbursement date can be used in determining loan forgiveness
 - Example – Receive loan proceeds on April 16th and use funds to pay wages earned during the prior two weeks, but what about wages earned prior to those two that may have not been paid?
- Payroll costs are **incurred** on the day the employee's pay is earned
- Any payroll costs **incurred but not paid** during the last pay period of the Covered Period can be included as an eligible expense if paid on or before the next regular payroll date
- This may be **favorable** for the taxpayer as no special payroll event is required on the last day for either Covered Period or Alternative Covered Period

Nonpayroll Costs

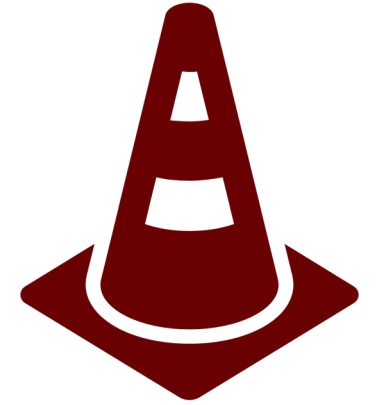
- **What business interest is included?**
 - “Business mortgage interest payments” - Any payment of interest on any business mortgage obligation on *real or personal* property incurred prior to February 15, 2020.”
- **Must “utilities” be provided by a public utility company, an organization that maintains the infrastructure for a public service and are subject to regulation?**
 - “Business utility payments” – payments for service for the distribution of electricity, gas, water, transportation, telephone, or internet access that began prior to February 15, 2020.”
- **What lease expenses are included?**
 - “Business rent or lease payments pursuant to a lease agreements for real or personal property that began prior to February 15, 2020.”

Nonpayroll Costs Beginning of Period

- **The Covered Period begins May 5, 2020 and ends June 29, 2020**
- **Water service period is April 1 – 30, 2020, invoiced on May 1, 2020 and due May 7, 2020**
 - If payment occurs between May 1-4, 2020, the expenses do not qualify because it was incurred and paid prior to the Covered Period
 - If payment occurs between May 5-7, 2020, the entire amount counts because it was paid during the Covered Period
 - If payment was made late anytime between May 8 – June 29, 2020, the entire amount counts because it was paid during the Covered Period
 - If payment occurred after June 29, 2020, the entire expense is not included because it was not incurred nor paid during the Covered Period

- The costs for mortgage interest, rent and utilities can be *incurred* during the Covered Period and paid by the next regular due date to qualify for forgiveness
- Applies even if the due date is outside of the 8-week period and even if paid late based on due date of bill
 - *Example* – Bill for June services invoiced on July 1, 2020 is due on July 10, 2020 and covered period ends June 30, 2020. The invoice is paid July 15, 2020, which is after the due date but before the next billing date of August 1, 2020. Eligible for forgiveness.
- Key takeaway though is that it appears all payments made *during* the Covered Period are eligible for forgiveness that includes rent, interest, and utilities that were for a period prior to the 8-week Covered Period

Unknowns on Eligible Costs



- **Can I bonus my employees?**
 - This appears to be okay under the cash (paid) method, but no thresholds established
 - Would still be limited by total amount allowed in 8-week period of \$15,385
 - Owner/employee, General Partner, Self-employed subject to special rule w/2019 compensation
- **What about related party rent?**
 - Not clear based on the application instructions, but assumed to be okay
- **Can I pay my employees if they are not working full time?**
 - This appears to be okay based on allowance of part-time employees in FTE calculation discussed later

Salary/Hourly Wage Reduction

- Potentially requires the borrower's loan forgiveness amount to be reduced based on wages paid to employees during the Covered Period or Alternative Payroll Covered Period
- Measured on a per employee basis
- Employees earning more than \$100K for any pay period during 2019 are currently removed from this forgiveness test
- This calculation is applied prior to the FTE reduction analysis



Step #1

- **Determine if pay was reduced by more than 25%**
 - Compare annual salary or hourly wage during the Covered Period or Alternative Payroll Period with that of Quarter #1 (Jan 1 – Mar 31)
 - Comparing rates instead of actual payments, i.e. 8 weeks of payroll compared to 13 weeks in Q1

Step #2

- **If reduction was greater than 25%, determine if salary/hourly wage reduction safe harbor is met on June 30, 2020**
 - Okay if reduction occurred between February 15 to April 26, 2020, as long as salary is restored by June 30, 2020

Step #3

- **If safe harbor is not met, determine the salary/hourly wage reduction.**

- Michael Scott's earnings were \$7,000 for the 8-week Covered Period and he was paid \$22,750 for the period of January 1, 2020 through March 31, 2020
- **Step #1**
 - Average annual salary for the 8-week Covered Period was \$45,500 ($\$7,000/8 \times 52$)
 - The average annual salary was \$91,000 for the period of January 1, 2020 through March 31, 2020 ($\$22,750 \times 4$)
 - $\$45,500/\$91,000 = 50\%$ (less than 75%, so continue to next step)

- **Step #2**

- 2a - Determine annual salary at February 15, 2020
- 2b - Determine annual salary from February 15, 2020 to April 26, 2020
- If the amount earned in step 2b is more than step 2a, then the safe harbor does not apply. Move to step 3 and determine reduction in forgiveness
- However, if 2a is greater than 2b then the next step is comparing to the annual salary at June 30, 2020. If the amount at June 30, 2020 is equal or greater than step 2a, the safe harbor has been met
- The goal of the SBA is to ignore a reduction of salary during the Covered Period, but only if it is increased by June 30, 2020 to the original salary

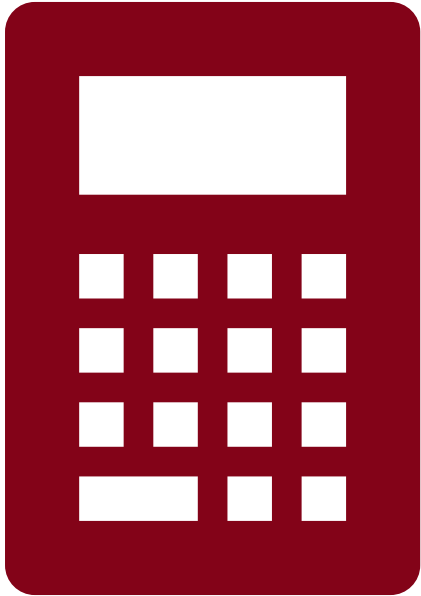
- **Step #3**

- Safe harbor not met
- 3a – take average salary for January 1, 2020 through March 31, 2020 and multiply it by 75%
 - $\$91,000 * 75\% = \$68,250$
- 3b – take the amount from 3a and subtract the average annual salary from the Covered Period
 - $\$68,250 - \$45,500 = \$22,750$
- 3c – take the amount from 3b and divide by 52 and then multiply by 8
 - $\$22,750 / 52 * 8 = \$3,500$
- Reduction of forgiveness equals \$3,500

Maintain FTE Status

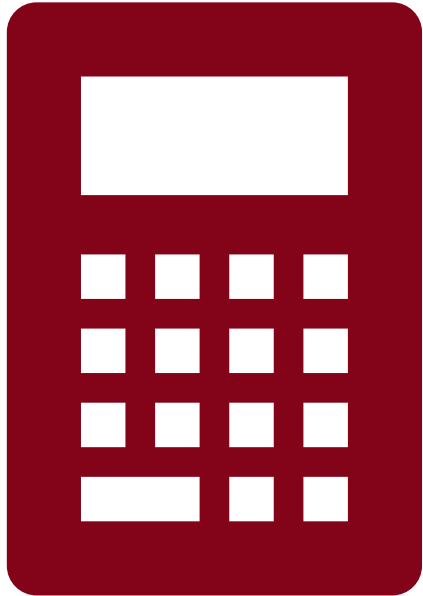
- **Can start today working on calculations for these periods:**
 - Average FTE from 2/15/19 through 6/30/19 or
 - Average FTE from 1/1/20 through 2/29/20
- **Start to lose part of the forgiveness if FTE count during the 8-week covered period is fewer than the pre-COVID-19 periods above**
- **Next start 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 from 2/15/20 through 4/26/20 on a weekly basis (30 days after enactment of the CARES Act) and as of 6/30/20**

FTE Calculations



- Calculation is completed for each employee
- Enter the average hours paid per *week* and divide by 40, while rounding to the nearest tenth
 - Emphasis being *weekly* calculation
- The max for each employee is 1
- A simplified method is allowed that assigns a 1 to any employee who worked more than 40 hour per week and .5 for employees who work fewer hours
 - The simplified method is done by election
 - Why use the simplified method?

FTE Calculations Cont.



- Using the simplified method eliminates the need for looking at hours for each employee on a weekly basis; just need to know who is full-time
- The regular method may be more beneficial if there are fewer part-time employees working more hours prior to February 15, 2020
 - Prior to Covered Period had 3 employees working 10 hours each would equal .8 FTE (.25 each) under regular method and 1.5 FTE (.5 each) with simplified method
 - Covered Period have 1 employee working 30 hours equals .8 FTE under regular method and .5 FTE with simplified method

- **Full-Time Equivalency (FTE) Reduction Calculation**
 - If Borrower has not reduced the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period there is no FTE reduction
 - Otherwise determine the quotient by dividing the Total Average FTEs during the covered period by the Average FTE during the Borrower's chosen reference period but not to exceed 1.0
- **FTE Reduction Safe Harbor for Rehires**
 - Borrower is exempt from the reduction in loan forgiveness based on FTE employees described above if **both** of the following conditions are met:
 1. Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020
 2. Borrower then restores its FTE employee levels by not later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020
 - If salary/wages are not restored there may still be a reduction to loan forgiveness under the salary/wage reduction rule

- **FTE Reduction Exceptions that do not reduce Loan Forgiveness:**
 - Any positions for which the Borrower made a **good-faith, written offer to rehire** an employee during the Covered Period or the Alternative Payroll Covered Period which was rejected by the employee
 - Any employees who during the Covered Period or the Alternative Payroll Covered Period but only if the position was not filled by a new employee
 - were fired for cause
 - voluntarily resigned
 - voluntarily requested and received a reduction of their hours
- These exceptions are critical to prevent reduction of loan forgiveness when employees cannot be brought back through no fault of the Borrower

Part III

FTE Reduction Example

Step one:
Determine the
reference
period

Option #1 - Average Number of FTE Employees for February 15, 2019 to June 30, 2019 ("2019 Comparison Period")

Beginning date for each week, unless otherwise stated, for the 2019 Comparison Period	Enter the number of employees hired as full-time or working on average 40 hours per week	Enter the number of part-time employees for each week	Sum all hours during the month worked by part-time or variable hour employees. Do not count any hours in excess of average 40 hours per week for any one employee.	Number of part-time/variable hours FTE employees	Weekly Average
February 15, 2019	10	3	90	2.30	12.30
February 22, 2019	10	3	90	2.30	12.30
<i>For Brevity Purposes, Only Illustrating the First Two Periods and the Last Two Periods</i>					
June 28, 2019	15	5	165	4.10	19.10
June 29 to June 30, 2019	15	5	165	4.10	19.10
				FTE Average for 2019 Comparison Period	15.90

Option #2 - Average Number of FTE Employees for January 1, 2020 to February 29, 2020 ("2020 Comparison Period")

Beginning date for each week, unless otherwise stated, for the 2020 Comparison Period	Enter the number of employees hired as full-time or working on average 40 hours per week	Enter the number of part-time employees for each week	Sum all hours during the month worked by part-time or variable hour employees. Do not count any hours in excess of average 40 hours per week for any one employee.	Number of part-time/variable hours FTE employees	Weekly Average
January 1, 2020	9	5	140	3.50	12.50
January 8, 2020	9	5	140	3.50	12.50
<i>For Brevity Purposes, Only Illustrating the First Two Periods and the Last Two Periods</i>					
February 26, 2020	8	4	115	2.90	10.90
February 27 to February 29, 2020	8	4	115	2.90	10.90
				FTE Average for 2020 Comparison Period	11.70

FTE Reduction Example, cont.

Step 2 - Calculate FTEs for the Covered Period

Beginning date for each week of the 8-week Covered Period	Enter the number of employees hired as full-time or working on average 40 hours per week	Enter the number of part-time employees for each week	Sum all hours during the week worked by part-time or variable hour employees. Do not count any hours in excess of average 40 hours per week for any one employee.	Number of part-time/variable hours FTE employees	Weekly Average
April 26, 2020	3	1	23	0.60	3.60
May 3, 2020	3	1	32	0.80	3.80
<i><u>For Brevity Purposes, Only Illustrating the First Two Periods and the Last Two Periods</u></i>					
June 7, 2020	3	1	15	0.40	3.40
June 14, 2020	4	-	-	-	4.00
				FTE Average	3.70

FTE Reduction Example, Cont.

Has there been a reduction of employees or the average paid hours between January 1, 2020 and the end of the Covered Period? If "No", FTE Reduction Quotient should be 100%.

Yes

Were FTEs restored via rehire? If "Yes", FTE Reduction Quotient should be 100%.

No

Reduction Based on Reduction of Number of Employees

Average FTE in Covered Period

3.7

Lesser of, Option #1 - 2019 Comparison Period or Option #2 - 2020 Comparison Period. Seasonal Employers can do either the 2019 Comparison Period, 2020 Comparison Period, or Seasonal Employer Period.

11.7

FTE Reduction Quotient

32%

PPP Loan Forgiveness Application



Paycheck Protection Program Loan Forgiveness Application

OMB Control Number 3245-0407

Expiration Date: 10/31/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		() -	
		Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____

Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

Weekly Biweekly (every other week) Twice a month Monthly Other _____

Covered Period: _____ to _____

***Note the Alternative Payroll Covered Period is available only if payroll is weekly and bi-weekly**

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here:

Borrower might not readily know the affiliates to include

PPP Loan Forgiveness Application Calculation

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):

Line 2. Business Mortgage Interest Payments:

Line 3. Business Rent or Lease Payments:

Line 4. Business Utility Payments:

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):

Line 9. PPP Loan Amount:

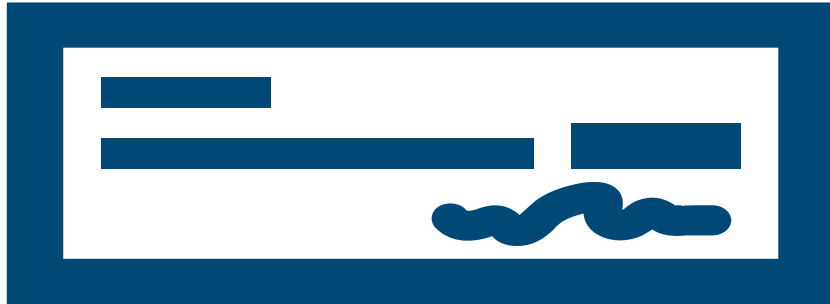
Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

Documents for Submission with Application

Payroll



- Bank account statements and third-party payroll reports showing cash compensation paid to employees
- Tax forms for periods that overlap the Covered Period or the Alternative Payroll Covered Period
 - Federal payroll tax filing Form 941 and other state quarterly forms for wage reporting and unemployment insurance
- All payment receipts, cancelled checks or account statements that document employee contributions for health insurance, retirement plans

Documents for Submission with Application Cont.

FTEs (Full Time Employees)



FTEs (Full Time Employees) calculations

- Average number of FTE employees on payroll per month employed between February 15, 2019 and June 30, 2019;
 - Average number of FTE employees on payroll per month employed between January 1, 2020 and February 29, 2020; or
 - Seasonal employers may use the average number of FTE employees based on the two options above or any consecutive 12-week period between May 1, 2019 and September 15, 2019
- **Same time period selected should be used on Schedule A, Line 11 of application**
 - **Documents may include payroll tax filings to the IRS and various states**

Documents for Submission with Application, Cont.

Nonpayroll



Includes verification of existence prior to February 15, 2020 and eligible payments during the Covered Period.

- **Business mortgage interest** — copy of lender amortization schedule, receipts or cancelled checks verifying payments, or lender account statements from February 2020 through one month after the Covered Period showing interest expense and payments
- **Business rent/lease payments** — copy of current lease agreement, receipts and cancelled checks for payments, or lessor account statements from February 2020 through one month after the Covered Period showing eligible payments
- **Business utility payments** — copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements showing eligible payments

Other Documents to Maintain but Not Submit

- **PPP Schedule A Worksheet**
 - Info for everyone listed on Table 1 of Salary/Hourly Wage Reduction
 - Info for everyone listed on Table 2, specifically individuals with annualized wages exceeding \$100k
 - All documentation regarding employee job offers, refusals, firings for cause, voluntary resignations and written requests for reduced hours
 - All documentation supporting FTE Reduction Safe Harbor
- **All record relating to obtaining the PPP loan**
 - Original loan application, certifications for eligibility, documents for forgiveness and material demonstrating compliance with PPP requirements
- **Retain all documents for *six years* after the date the loan is forgiven or repaid in full as the SBA may request files at a later date**

Deductibility of Expenses Covered by PPP Proceeds

- **IRS guidance (Notice 2020-32)** explains a taxpayer who received loan proceeds through the Paycheck Protection Program would not be permitted to take deductions to the extent that the expenses were reimbursed by a PPP loan that was later forgiven
- **The CARES Act itself is silent regarding deductions being allowed after a covered loan is subsequently forgiven**
- **The AICPA has supported a bill called the **Small Business Expenses Protection Act of 2020**** that would allow expenses covered by PPP loans to be fully deductible expenses

In the 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 • 8:40 AM EDT | UPDATED MOMENTS AGO

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 **Lauren Hirsch**
@LAURENSHIRSCH

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

\$2 Million Safe Harbor – Good Faith Request

- Original application required applicants making PPP loan requests to certify in good faith that there was current economic uncertainty to support ongoing operations
- The Small Business Administration (SBA) determined that any applicant, including affiliates, who received PPP Loan proceeds of an original principal amount less than \$2 million would be deemed to have made the required certification of good faith in obtaining the loan
- A large part of this determination with using the \$2 million threshold was the liquidity of borrower's requesting loans
- The SBA has stated that all PPP Loans issued above \$2 million are subject to review

PPP Loan Forgiveness Takeaways

- There is still a lot of information to come out in a very short time
- Ask your trusted advisors for help and guidance so that your focus can be to maintain business operations
- Get assistance with loan forgiveness calculations and filling out the Loan Forgiveness application
 - Application is currently set to expire *October 31, 2020*
- Keep records for proper documentation on all expenses covered



Preparing for the New Normal

Kathleen E. Owings, LACP

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Look Back to Move Forward



The After-Action review

- What went well and why?
- What did not go well and why?
- What can be improved on?

Question + Answer



Next SKR+CO Webinar: MAY 26 | New SBA Guidance on PPP Loan Forgiveness