



SKR+CO WEBINAR SERIES

MAY 26 | SBA Guidance on PPP Loan Forgiveness



Welcome + Webinar Tips



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Marketing + Client
Relations Director

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.
 - We will pause to answer questions periodically.
 - There will be time for questions at the end as well.
- Webinar is being recorded.
- CPE credit + certificates – communications@skrco.com

Agenda



Welcome and SKR+CO overview



PPP Loan Forgiveness: Where We Left Off



SBA Guidance (5/15 + 5/22): What's New



What's Next



Q+A

Stockman Kast Ryan + Company

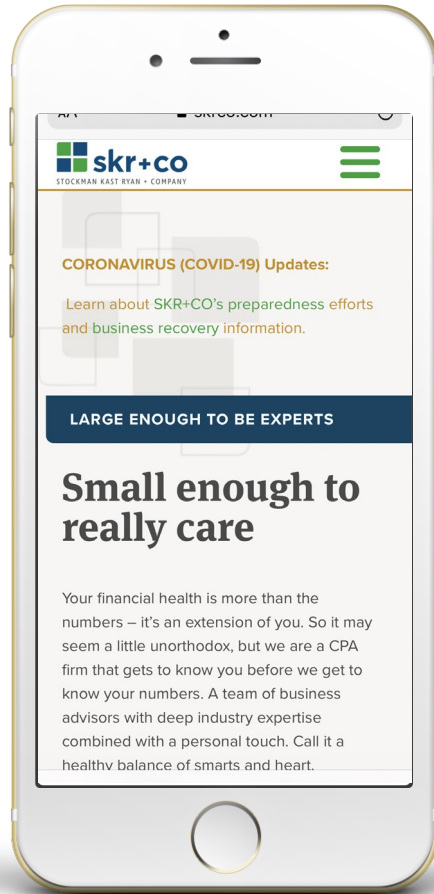


**A TOP ACCOUNTING FIRM,
MOUNTAIN REGION**

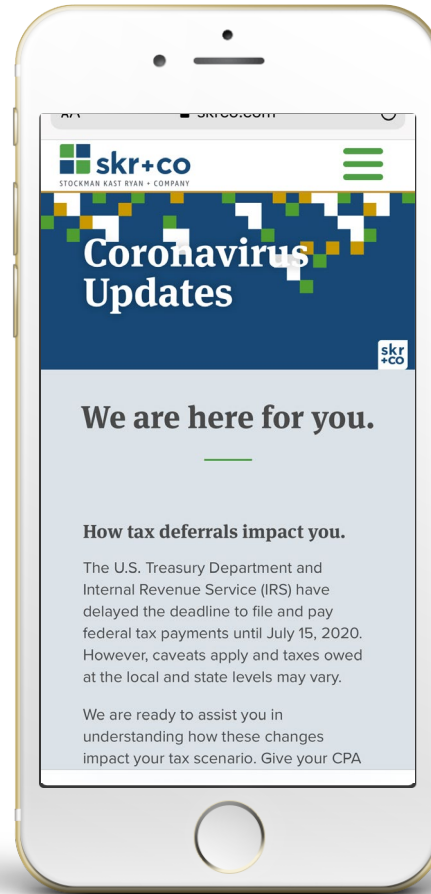
Accounting Today
2017, 2018, 2019, 2020

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

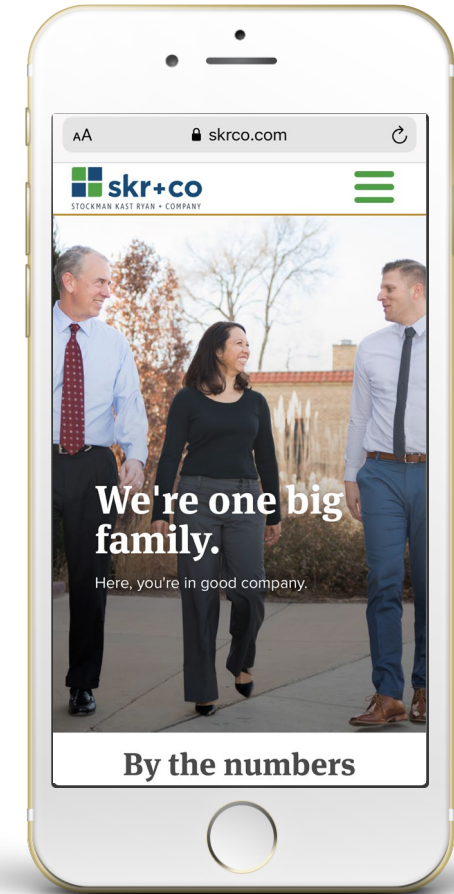
SKR+CO and Coronavirus Updates



Communication
Channels



Coronavirus
Updates



SKR+CO
Operations

Today's Speaker



Jordan Empey, CPA, MST

Tax Partner

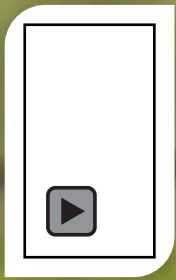
Stockman Kast Ryan + Company

- Provides business + individual tax planning to over 200 clients, with emphasis in automobile dealerships, real estate, construction.
- Active in the community and the downtown development initiatives.
- Serves on Downtown Partnership's Development Authority board of directors
- Educates the business community on important strategic tax planning opportunities, to include navigating the Tax Cuts and Jobs Act and COVID-19 Business Recovery efforts



Where We Left Off

What we didn't know then.



But First . . .

Let's take a long ride

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

Top Ten Things We **DIDN'T** Know Then

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?

Top Ten Things We **DIDN'T** Know Then

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?



What's New From the SBA

May 15 and May 22 guidance

Covered Period

What we knew:

- The “covered period” is the 8-week period beginning on the date you received the loan disbursement.

What is new:

- New flexibility in choosing your 8-week covered period specific to payroll costs.
- Borrowers with biweekly (or more frequent) payroll schedules may elect to choose an “alternative payroll covered period,” which is the 8-week (56 day) period beginning on the first day of the first pay period following the disbursement date
- Choosing an “alternative payroll covered period” permits businesses to align its covered period with the beginning of a pay period.

Example: If you received your PPP loan on April 11, 2020, and the first day of your next pay period is April 15, 2020, you may elect to count the payroll costs —**and only the payroll costs**—for the 8-week period beginning April 15, 2020, rather than the 8-week period beginning April 11, 2020.

Caution: No flip-flopping! If you elect to use the “alternative payroll covered period,” you **MUST** use it everywhere that the alternative payroll covered period is an option.

Paid and/or Incurred?

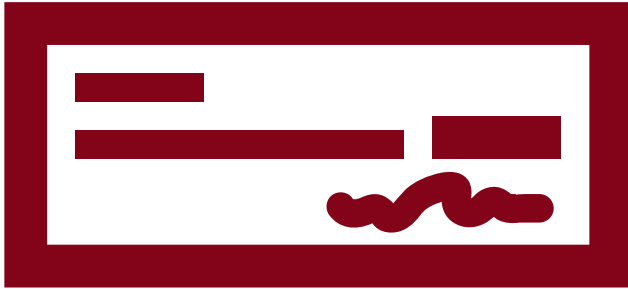


- Payroll costs are paid on the day the paychecks are distributed or the borrower originates an ACH credit transaction. Thus, you could presumably receive PPP loans on, for example, April 16 and immediately pay –as part of your regular payroll process– wages that had been earned by the employees for the previous two weeks, and include the amounts in the forgiveness calculation because the amounts had been PAID within the covered period.
- Guidance is also given that provide that payroll costs are incurred on the day they are earned, before providing additional flexibility by allowing the payroll costs incurred for your last pay period of the 8-week period to be eligible for forgiveness as long as they are paid no later than the next regular payroll date.
- Guidance now provides that furlough pay, bonus pay (be cautious of the \$15,385 cap) and hazard pay count towards loan forgiveness.

KEY TAKE AWAY: You should be able to get between 8-10 weeks of payroll under this additional flexibility.

- For non-payroll costs such as mortgage interest, rent and utilities, to qualify for forgiveness, these expenses must either be: 1) paid DURING the 8-week covered period, or 2) INCURRED during the 8-week period, and paid by its next regular due date, even if that due date is outside the 8-week period.
- What about prepayments of payroll and nonpayroll costs?

Nonpayroll Costs Example



- 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

Forgiveness Application

- Completing the application will be a process.

Start with the
Schedule A
Worksheet

Then complete
the PPP
Schedule A

Populate the
PPP Loan
Forgiveness
Calculation
Form

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 _____

Alternative Payroll Covered Period, if applicable: _____ to _____

Schedule A Worksheet

PPP Schedule A Worksheet

Table 1: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of less than or equal to \$100,000 for all pay periods in 2019 or were not employed by the Borrower at any point in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE	Salary / Hourly Wage Reduction
FTE Reduction Exceptions:				
Totals:		Box 1	Box 2	Box 3

Table 2: List employees who:

- Were employed by the Borrower at any point during the Covered Period or the Alternative Payroll Covered Period whose principal place of residence is in the United States; and
- Received compensation from the Borrower at an annualized rate of more than \$100,000 for any pay period in 2019.

Employee's Name	Employee Identifier	Cash Compensation	Average FTE
Totals:		Box 4	Box 5

Attach additional tables if additional rows are needed.

Table 1:

1. Compensation for employees under \$100k annualized for *any* pay period.
2. List the in excess of 25% compensation reduction per employee.

Table 2:

1. Compensation for employees over \$100k annualized for *any* pay period.

Compute FTEs for Covered Period or Alt Payroll Period

One of two options can be used to determine the average FTEs for the 8-week covered period, or the alternative payroll covered period, if elected, for each qualifying employee.

Option A

- Determine the average number of hours paid per week for the applicable period
- Divide average number of hours worked per week by 40, then round to the nearest tenth. The maximum for each employee is capped at 1.0.

Option B

- The borrower can elect to use the simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours TBD

FTE Calculation Example



Example. Trailhead Co. borrowed a \$80,000 PPP loan on April 22, 2020. Trailhead Co. paid/incurred \$80,000 of costs eligible for forgiveness over the next 8 weeks.

For the 8-week period beginning April 22, Trailhead Co. had the following employees:

- Abby averaged 35 hours per week during the period,
- Bernie averaged 40 hours per week during the period,
- Charles averaged 49 hours per week, and
- Dave and Eileen averaged 20 hours per week.

- For the 8-week covered period, X Co. had 3.9 FTEs: Abby: $35/40 = .9$; Bernie: $40/40 = 1.0$; Charles: $49/40 =$ capped at 1.0; Dave and Eileen: $20/40 = .5$ each
- If Trailhead Co. chose instead to use the simplified method, it would have 3.5 FTEs: Abby: $35/40 = .5$; Bernie: $40/40 = 1.0$; Charles: $49/40 = 1.0$; Dave and Eileen: $20/40 = .5$ each

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

Salary/Wage Reduction, Cont.



New Method	2019 Annualized pay from a single pay period	Jan – March 2020 compensation	Annualized Jan – Mar 2020 compensation	Actual compensation during 8-week covered period	Annualized 8-week compensation	Total compensation reduction	Reduction in excess of 25%	Reduction amount	Conclusion
John Denver	\$67,000	\$20,000	\$80,000	\$8,000	\$52,000	-65%	-40%	\$ (1,231)	Eligible for reduction

Salary/Wage Reduction Safe Harbor



Salary/Wage Reduction Restoration The reduction is not required, however, if a safe harbor is met.

- Key dates are 2/15/20, 2/15/20 through 4/26/20 (30 days after the CARES Act) and 6/30/2020.
- Need to see if pay decreased for the 2/15/20 through 4/26/20 period in relation to the stand-alone date of 2/15/20. If it did decrease you have the chance to restore the wages by the 6/30/20 timeframe.
- For example purposes, assume that on February 15, 2020, John was being paid an annual salary of \$75,000. Due to business closures John's average salary for the period February 15, 2020 through April 26, 2020, was reduced to \$55,000. By June 30, 2020, however, A's annual salary was increased to \$75,000 and the safe harbor is met.

FTE Safe Harbor

May 22 Guidance:

Q: Will a borrower's loan forgiveness amount be reduced if the borrower laid-off or reduced the hours of an employee, then offered to rehire the same employee for the same salary and same number of hours, or restore the reduction in hours, but the employee declined the offer?

Answer:

No. Employees whom the borrower offered to rehire are generally exempt from the CARES Act's loan forgiveness reduction calculation.

Q: Will a borrower's loan forgiveness amount be reduced if an employee is fired for cause, voluntarily resigns, or voluntarily requests a schedule reduction?

Answer:

No. When an employee of the borrower is fired for cause, voluntarily resigns, or voluntarily requests a reduced schedule during the covered period or the alternative payroll covered period (FTE reduction event), the borrower may count such employee at the same full-time equivalency level before the FTE reduction event when calculating the section 1106(d)(2) FTE employee reduction penalty.

Step Two: Complete Schedule A



Paycheck Protection Program Loan Forgiveness Application

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Schedule A

PPP Schedule A Worksheet, Table 1 Totals

Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:

Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:

Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1:
If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here ☐ and enter the amount of the reduction in Box 3.

- Lines 1 – 5 on Schedule A pull from the calculations determined by completing the worksheet.
- Lines 6 – 13 cover:
 - Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period
 - Compensation to Owners
 - Full-Time Equivalency (FTE) Reduction Calculation

What About Owner/Employees, General Partners

New Information with latest rounds of guidance:

This information is mostly new guidance to S/C Corporation shareholders and general partners. Expanded most likely from the April 14th guidance related to sole proprietors and independent contractors.

- The most shocking news is that “owners” **cannot increase their pay** during the 8-week 2020 covered period. The amount forgivable is the LESSER of the amount paid to the individual during the 8-week covered period or 8/52 of 2019 compensation. Maximum is \$15,385 if 2019 compensation supports that amount.
- Secondly, it appears non-compensation payroll costs for owner-employees, partners and self-employed taxpayers are NOT forgivable. Most common would be health insurance and retirement contributions. I have a question mark around if S/C Corporation shareholders would still be eligible for these items, but then is it still capped at \$15,385.

Limit on “Owner” Compensation

- 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: Wages of \$75,000 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.

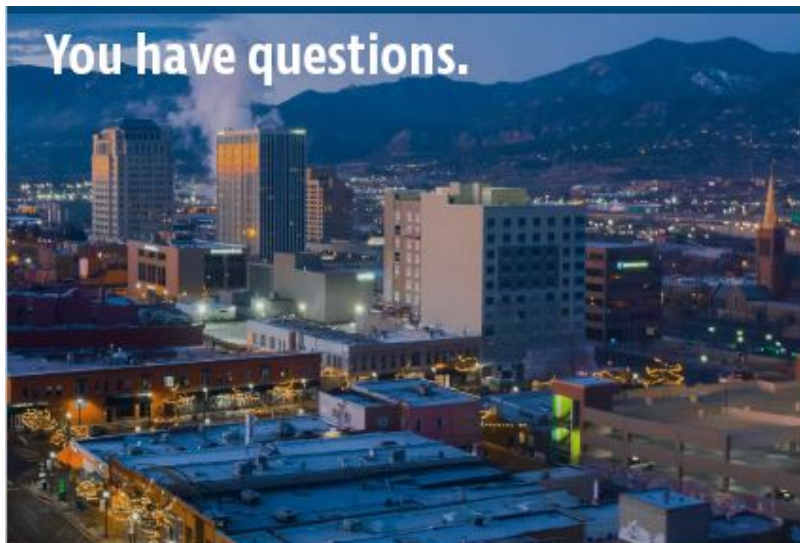
A man with dark hair, a beard, and glasses is looking down at a smartphone. He is wearing a blue and white checkered shirt. The background is a blurred indoor setting. The image has a blue tint.

What's Next?

Longest or shortest eight weeks ever.

PPP Forgiveness Support Team

You have questions.



We have answers.

- Reviewing or completing applications
- Preparing or reviewing calculations
- Minimizing forgiveness reductions
- Understanding documentation rules
- Balancing EIDL + PPP programs
- Layering PPP with FMLA + unemployment
- Maximizing federal and local relief funding
- Determining exit strategies
- Timing rehires and loan repayments
- Forecasting for business continuity
- Planning for post-COVID cashflow



PPP FORGIVENESS SUPPORT TEAM

When every business is different, every question is unique and every answer is essential to meeting strict guidelines, feel confident turning to your team of experts well-versed in the latest business recovery information.

Team members include:

- Jordan Empey, Tax Partner
- Anna Stepan, Senior tax manager
- Jason Raak, Tax Manager
- Alaine Lubin, Senior Business Advisor

For assistance with PPP loan programs or other business relief initiatives tied to COVID-19 interruptions, please contact 719.630.1186 or communications@skrco.com.

Deductibility of PPP Expenses

- **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 8:46 AM EDT | UPDATED MOMENTS AGO

 **Lauren Hirsch**
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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

Question + Answer



Upcoming Webinars

June 2 or 9 | To be scheduled in response to additional SBA guidance

- Presented by Jordan Empey, Anna Stepan and Jason Raak



Register at skrco.com/client-center/CoronavirusUpdates