

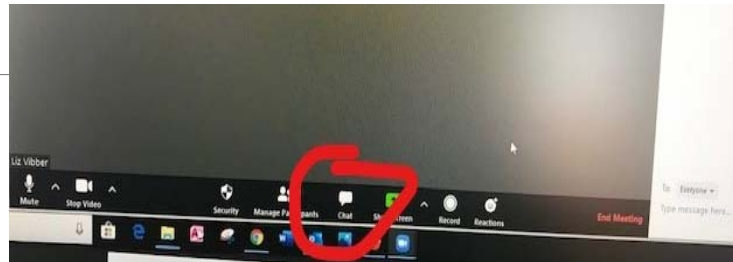
# Welcome to the Webinar

Before we begin...

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All attendees are muted to ensure the best audio quality

To ask a question, please use the Chat Feature at the bottom of your screen. We will be monitoring the questions and answering them as we are able.



The slides will be provided to attendees via e-mail after the session.

**BEE BERGVALL & CO.**  
Certified Public Accountants

# PPP and Legislative Update

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UPDATE 1/21/2021



# Disclaimer

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*These rules are changing very rapidly. There are parts of the CARES Act that are not yet clear and have been interpreted differently by different practitioners.*

*The information in the slides was prepared by Bee, Bergvall & Co on Tuesday, January 19 and is correct to the best of our knowledge and understanding.*

*This presentation represents our current interpretation of the guidance that has been released to this point.*

*This is for informational purposes only and is not legal or financial advice.*

*Please consult your own accountants or attorneys before proceeding.*

# Overview

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- PPP Round One Forgiveness Applications
- PPP Round Two
- Other major provisions of the Consolidated Appropriations Act
- Financial Statement and Tax Issues

# Government Aid

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## CONSOLIDATED APPROPRIATION ACT

- Included \$900 billion in stimulus relief signed into law December 27, 2020

## CARES Act

- The **Coronavirus Aid, Relief, and Economic Security Act**, also known as the **CARES Act**, a \$2.2 trillion economic stimulus bill signed into law on March 27, 2020.
- This was the largest economic stimulus package in US History

## Families First Response Act

- Signed into law March 18, 2020
- Requires certain employers to provide their employees with paid sick leave or expanded family and medical leave for specified reasons related to COVID-19.

# Glossary

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PPP First Round: March 2020 PPP program

PPP Second Round: December 2020 PPP program

- PPP First Draw
  - For those who did not receive funds in the first round
  - For those who did not receive all the funds they could have in the first round *–due to changes in the laws-not due to error*
- PPP Second Draw
  - Opportunity for those who received funds in the first round *and who meet specific criteria* to apply for PPP funds

# PPP Loan Forgiveness Round 1

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- Can choose a covered period between 8 and 24 weeks
- Forgiveness amounts:
  - Payroll needs to represent at least 60%
  - Health insurance includes group life, disability, vision, and dental
  - Can also use PPE expenses
  - Limits on \$100,000/year earners—prorate based on the covered period selected
  - Owners compensation is capped at \$15,385 (8 wks) to \$20,833 (24 wks)
    - Owner defined as more than 20% owner
    - NA for nonprofits
    - Waiting on guidance if the covered period is between 8 and 24 weeks

# FAQ

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## How is headcount calculated?

- Headcount-based on full time equivalents
- Option to use

Feb 15, 2019 to June 30, 2019 compare to

Feb 15, 2020 to December 31, 2020 (or when you end your loan measurement date)

OR

Jan 1, 2020 to Feb 29, 2020

Feb 15, 2020 to December 31, 2020 (or when you end your loan measurement date)



# FAQ

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How do you calculate FTE?

40 or more hours = 1 FTE

Anything less can be either

- Pro-rated (10 hours = .25 FTE)
- OR count all at .5 FTE

# FAQ

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## What if I furloughed employees?

You have until December 31, 2020 to re-hire your employees and/or restore their wages/salary or hire similarly qualified employees for unfilled positions

1. Written offer to re-hire
2. Offer for same salary, wage, hours
3. Offer rejected
4. Maintained records that offer rejected
5. You informed the state unemployment office that your offer was rejected within 30 days of the rejection (guidance is coming as to how you would inform the office)

Another exception: If you can demonstrate you could not return to same level of business activity due to safety requirements such as social distancing.

# The FTEE adjust and salary/hourly wage reduction might not penalize you

Thank you to our friends at Quaint Oak Bank for this helpful illustration!

## Payroll and Non-Payroll 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 Employees (FTEs) and Salary/Hourly Wage Reduction

- 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 60% Requirement (divide line 1 by .60)

## Forgiveness Amounts

- Line 11. Forgiveness Amount (enter the smaller of line 8, 9, and 10):

Less EIDL Amount

Forgiveness Amount After EIDL

\$75,000	}	Use of Proceeds
\$20,000		
\$20,000		
\$20,000		
= \$135,000		
-	(\$1,185)	}
=	\$133,815	
x	0.82	
= \$109,729		
	\$100,000	}
	\$125,000	
\$100,000		
\$	(10,000)	}
\$		90,000

# PPP Loan Forgiveness Round 1

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- ADP and other companies have worksheets
- Many employers find they can reach forgiveness just using payroll and a longer covered period. This saves accumulating copies of expense support
- \*August 24 Interim Rule: Rents paid to a related party (like a company owner) are limited to the amount of mortgage interest owed on the property during the forgiveness period

# PPP Loan Forgiveness Round 1-Mechanics

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- Simplified forgiveness forms for loans under \$150K is now available-Form 3508S
  - Two certification statements
  - Must maintain documentation for four years
  - Recommend you complete the full application and save with your documentation
- Some loans are taking longer than 90 days with SBA Forgiveness
- Short form for loans under \$50K will go away
- Banks have been on and offline to adjust to the changes

Thank you to our friends at Quaint Oak Bank  
for the information on this slide

# Bank Role

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The SBA has outlined the Bank's role in the forgiveness process as follows:

- **Confirm receipt of the borrower certifications** contained in the SBA Form 3508
- **Confirm receipt of the documentation** the borrower must submit to aid in verifying payroll and nonpayroll costs, as specified in the instructions to the SBA Form 3508.
- **Confirm the borrower's calculations** on the borrower's SBA Form 3508, including the dollar amount of the (A) Cash Compensation, Non-Cash Compensation, and Compensation to Owners claimed on Lines 1, 4, 6, 7, 8, and 9 on PPP Schedule A and (B) Business Mortgage Interest Payments, Business Rent or Lease Payments, and Business Utility Payments claimed on Lines 2, 3, and 4 on the PPP Loan Forgiveness Calculation Form, by reviewing the documentation submitted with the SBA Form 3508.
- **Confirm that the borrower made the calculation on Line 10** of the SBA Form 3508 correctly, by dividing the borrower's Eligible Payroll Costs claimed on Line 1 by 0.60.

# PPP Round 2

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## 1<sup>st</sup> draw

- Did not receive funds in Round 1-Under 500 employees
- Received less funds than you should have in Round 1- “top off”
  - Due to a change in the rules
  - Not due to an error on your part
  - Need to work with the bank who gave you the PPP loan in Round 1
- 501-c-6
  - Under 300 employees
  - Lobbying thresholds-less than 15% of receipts, 15% of activities, \$1 million: *waiting for more specific guidance*

# PPP Round 2

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## 2<sup>nd</sup> draw-eligibility

- ❖ Gross receipts in one calendar quarter in 2020 have declined 25% or more when compared to the same calendar quarter in 2019
- ❖ 300 or fewer employees



# PPP Round 2

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## Eligibility

- ❖ Must USE first draw funds before 2<sup>nd</sup> draw is disbursed
  - Don't have to apply for forgiveness
  - Or have received forgiveness

# PPP Round 2: Draw 2

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## Gross receipts

- Does not include capital gains/losses or unrealized gains/losses
- It does include investment income
- Forgiveness of PPP 1<sup>st</sup> draw not included in gross receipts
- Can compare the full year 2020 to 2019 and if down 25% don't need to look at quarters
- Use the same basis of accounting you normally would during the year
- If one quarter is down but the business improved and the other quarters were better so the whole year was good—remember there is the certification that the funds are required due to an economic necessity
- Does not include PPP loan proceeds or EIDL advance

# PPP Round 2: Draw 2

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Gross receipts-for nonprofits

- Not reduced for special event expenses
- Not reduced for costs of goods sold

# PPP Round 2

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Same calculation as Round 1

- 2-1/2 months payroll expenses
- If restaurant or accommodations can use 3-1/2 months payroll expenses
  - Definition of restaurant or accommodations—NAICS code starts with 72

Payroll costs can be:

- 2020
- 2019
- OR the 12 months prior to applying for the PPP Loan

*If you use 2019, and apply to the same bank, you do not need to re-submit documentation*

# PPP Round 2

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What we don't know yet

- Do CARES Act grants received from the state or County need to be included in gross receipts
- Do Provider Relief funds that nonprofits received from HHS need to be included in gross receipts
- How should nonprofits handle restricted funds

# PPP Loan Forgiveness Round 2-Mechanics

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- Documentation for revenue decline
  - Internal financials or tax return or bank statements
  - Lenders may decide what documentation they want
- If application is for less than \$150K do not need to submit documentation at the time of application but you will need to submit at the time of forgiveness request
- Last day to apply: March 31 for either the 1<sup>st</sup> or 2<sup>nd</sup> draw

# PPP Round 2 Consideration

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- Owner who received unemployment earlier and could not apply for PPP

# Other PPP

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If you or the lender made an unintentional error that resulted in you receiving more funds there is a procedure to follow to pay the funds back

Example:

- You mistakenly included independent contractors
- You mistakenly included payroll over \$100K



# Other Consolidations Act

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- EIDL grant (of \$10k or less) does NOT reduce PPP forgiveness
  - If you already returned \$10K, the bank will get the money back to you
  
- Shuttered venue operator grant-not live yet
  
- Using Flex spending-can carry over (dependent care)
  
- Business meals 100% allowable if food and beverage provided by a restaurant

# Other Consolidations Act

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- Employee Retention Credit
  - Credit against payroll taxes
  - Credit is up to \$10,000 per employee-paid to employees not providing services because operations were suspended or due to decline in gross receipts
  - If you experienced either
    - Full or partial suspension due to governmental orders limiting commerce, travel or group meetings in any calendar quarter
    - Or significant decline of gross receipts-50% or more in any calendar quarter
  
- Employee Retention Credit (ERC)
  - Can't use PPP and ERC for the same payroll BUT you can do both
  - Can pursue for 2020 retroactively
  - Consider when applying for forgiveness: keep payroll at 60% and use other expenses
  - Still waiting for clarity on this

# Payroll Tax Deferment

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You can now continue to defer the payment of payroll taxes (FICA and Medicare) even after the loan is declared as forgiven

Repayment of the deferred taxes has been postponed from April 30, 2021 to December 31, 2021 *IRS NOTICE 2021-11*

# Financial Statements

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- ❖ Options

- ❖ Debt until forgiven

- ❖ If reasonably expected to be forgiven, can record as income

- ❖ If you have a loan covenant with the bank and PPP loan is not yet forgiven, make sure to get a waiver

# Tax

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- Federal: Expenses related to PPP are deductible
  - Could be some basis issues for S Corporations – *waiting on guidance*
- PA state: C-Corp expenses related to PPP are deductible
  - Currently taxable for S Corp on pass through-hoping to get this changed

# Questions?

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