



PAYCHECK PROTECTION PROGRAM: NOW THAT YOU HAVE THE MONEY HOW TO MAXIMIZE YOUR LOAN FORGIVENESS

Chuck Fenske & Gordy Jones



CHUCK FENSKE, MBA

VICE PRESIDENT OF CONSULTING



Role at Pease, CPAs:

- Conducting business valuations and helping companies grow the value of their business

Education:

- Case Western Reserve University
 - MBA (Weatherhead School of Management)
- The Ohio State University
 - BS Accounting (Fisher College of Business)
 - BS Construction Management

GORDY JONES, CPA

SENIOR MANAGER, TAX ADVISORY SERVICES



Role at Pease, CPAs:

- Senior Manager, Tax Advisory Services - focus on new legislation, strategic problem solving, and internal consulting

Education:

- Ohio University
 - BS Accounting
- Certified Public Accountant
 - Registered with the State of Ohio



PEASE
CPAs

HOW CAN WE HELP?

The complexities and rules surrounding the Paycheck Protection Program are constantly changing.

- How can I spend my PPP loan so it will be forgiven?
- What documents will I need to apply for forgiveness?
- Is every bank going to ask for the same information?

We are here to help navigate the process and make sure you get the maximum forgiveness out of the loan.

Paycheck Protection Loan Refresh



PAYCHECK PROTECTION LOAN BASICS

- **Who is Eligible?**
 - Small business and Nonprofits with < 500 employees
 - Alternative Sized Standards – Two-prong test based on Net Assets and Income – Many Large Nursing Homes Qualify
 - NAICS Code 72 Exception for physical locations
- **How is the Loan amount determined?**
 - Multiplying monthly average payroll for the prior year by 2.5
- **What is the maximum loan amount?**
 - \$10 million less any other outstanding SBA debt
- **What can the loan be used for?**
 - Payroll, group healthcare, rent, utilities, and other debt obligations
- **Who is not eligible?**
 - Real Estate Holding Companies, Multi-Family Housing Companies



ALTERNATIVE SIZE STANDARD

- Tangible Taxable Net Worth less than \$15m
- Average Net Federal Taxable Income of less than \$5m over the last two years
 - For Tax Years Ended 2018 and 2019 (estimated if necessary)
- Heavily Leveraged?
- Cash Basis Tax Payers?
- Construction, Nursing Homes, Private Equity?

HOW TO CALCULATE PAYROLL – EXAMPLE

	<u>Cash Flow</u>	<u>PPP Allowed*</u>
<i>Earnings</i>		
Regular Wages	37,000	37,000
Bonus Wages	3,000	3,000
<i>Earnings Subtotal</i>	40,000	40,000
<i>Employer Contributions</i>		
Retirement Account Matching (2%)	800	800
Social Security (6.2%)	2,480	-
Medicare (1.45%)	580	-
State Unemployment Tax Authority (2.7%)	1,080	1,080
Group Health Plan Premiums	450	450
<i>Employer Contribution Subtotal</i>	5,390	2,330
<i>Annual Gross Carrying Cost of Employee</i>	45,390	42,330
<i>Average Monthly Amount</i>	3,783	3,528
<i>PPP Max Amount - Average x 2.5</i>		8,819

*As the rules have been interpreted today. The ultimate decision will come from the bank processing the loan, and interpretation has varied from bank to bank based on feedback we have received.

PPP LOAN FORGIVENESS

- Loan forgiveness is based on spending in the 8 weeks following the disbursement of the loan
- Forgiveness of non-payroll expenses is limited to 25% of the total amount forgiven



PPP LOAN FORGIVENESS (PAYROLL VS. OTHER APPROVED EXPENSES)

Example: XYZ Co. received a PPP loan for \$100,000

Spent on:

- Payroll - \$60,000
- Other Approved Expenses - \$40,000
- Forgiven - \$80,000
- Needs to be prepaid - \$20,000

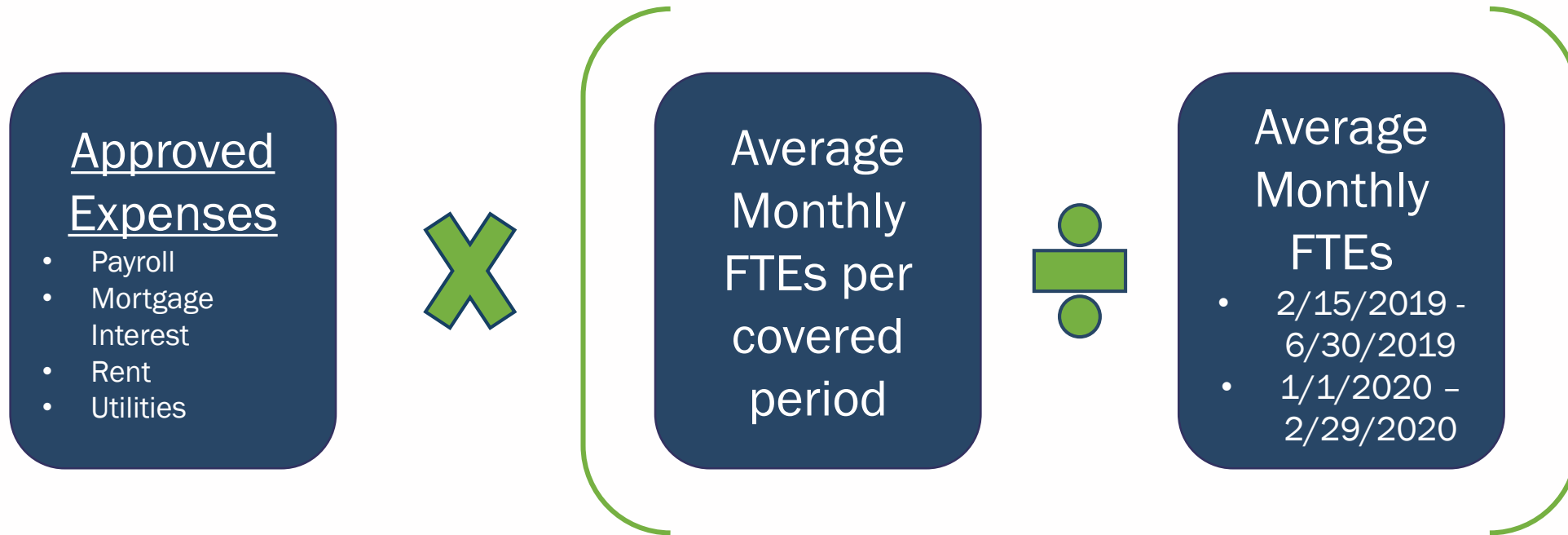
$(\$60,000 / .75) = \$80,000$ (\$20,000 needs to be repaid)

UNFORGIVEN LOAN TERMS

- Interest Rate: 1% APR
- Maturity: 2 years
- No payments must be made for 6 months following the receipt of funds, however interest will accrue
- Terms dictate 18 equal payments followed by a balloon payment

Paycheck Protection Loan Forgiveness

PPP LOAN FORGIVENESS FORMULA



*Full Time Equivalent proportion cannot exceed 100%. FTE Denominator is at the choice of the borrower.

APPROVED EXPENSES

75% of the money needs to be spent on:

- Payroll Cost

The remain 25% can be spent on:

- Rent
- Utilities
- Interest Payments on Mortgage Obligations

Cannot be used on other items for expansion (equipment, truck...etc.)

MISUSE OF FUNDS

- If a recipient of a PPP loan uses the funds for unauthorized purposes, the SBA can direct the borrower to immediately repay the funds to the lender.
- In the event that the recipient knowingly and intentionally uses the funds for unauthorized purposes, the borrower can be subject to additional liability, including fraud.
- Rule of thumb: stick to the purpose of the program or repay the funds.



WHAT IS INCLUDED IN “PAYROLL COSTS”?

- Salary, wages, commission
- Guaranteed payments to partners
- Partner’s share of Self Employment Income from K-1s
- Cash Tips
- Vacation, Parental, Family and Medical, or Sick Leave
- Group Healthcare Coverage (including insurance premiums)
- Retirement Benefit Payments
- State and Local Taxes (on employee compensation)



WHAT IS EXCLUDED FROM “PAYROLL COSTS”?

- Compensation from employees outside US
- Compensation > \$100,000 prorated for the 8 week period (\$15,385)
- Federal employment taxes
 - Social Security, Medicare, Railroad Retirement Tax
- Sick and family leave in Families First Coronavirus Response Act



APPROVED EXPENSES - RENT

- Rental Agreements must have been in place before February 15, 2020
- There is no exclusion for rent paid by a business to a related party holding company*
- Personal Property Rent Expense? This would allow for extension to equipment/company cars/etc. No exclusion listed in the statute*
- Non-payroll limitation of 25% is still in effect on this issue

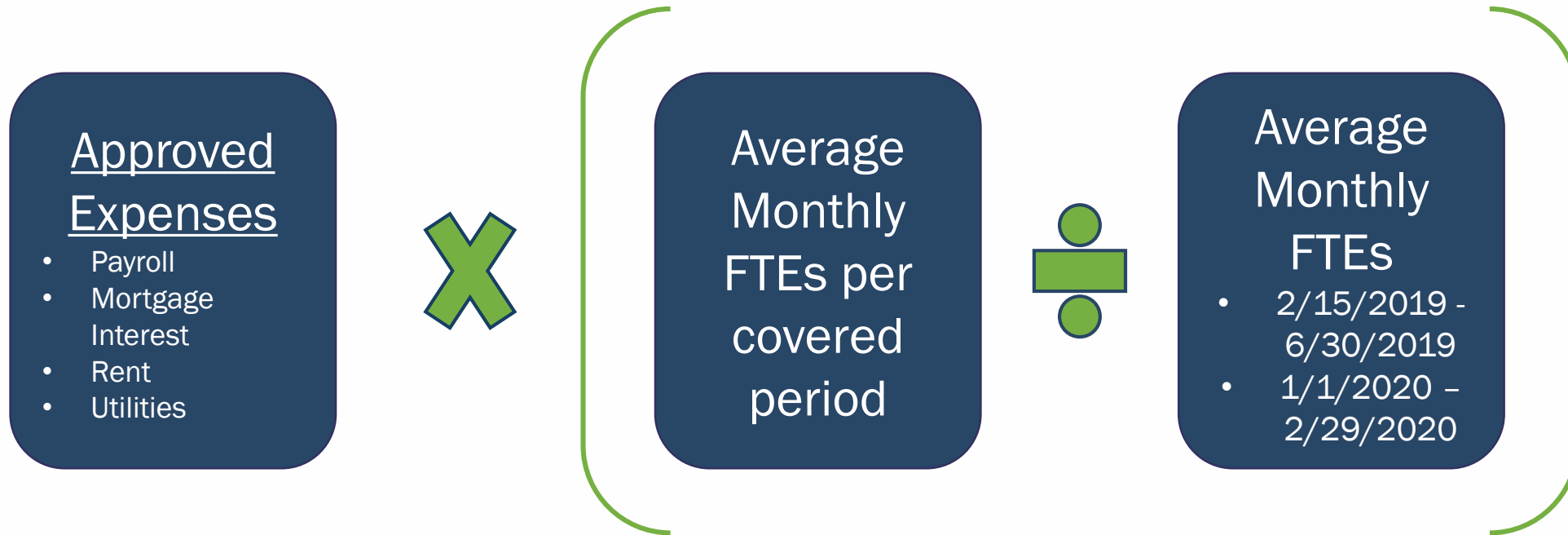
*As the rules have been interpreted today. The ultimate decision will come from the bank processing the loan, and interpretation has varied from bank to bank based on feedback we have received.

PERMITTED SPENDING QUESTIONS

- Timing of Spending: the statute permits spending on “costs incurred and payments made” within the 8 week period
- Clarification is needed to determine if only expenses incurred during the 8 week period, which are also paid during that period are eligible
 - *Do wages incurred before the loan was received and paid within the 8 week period count?*
 - *How would a business meet both incurred and paid requirements if employees are paid two weeks in arrears? Does that limit the amount to 6 weeks of payroll?*
 - *If both tests do not need to be met, can expenses be prepaid to increase forgiveness?*



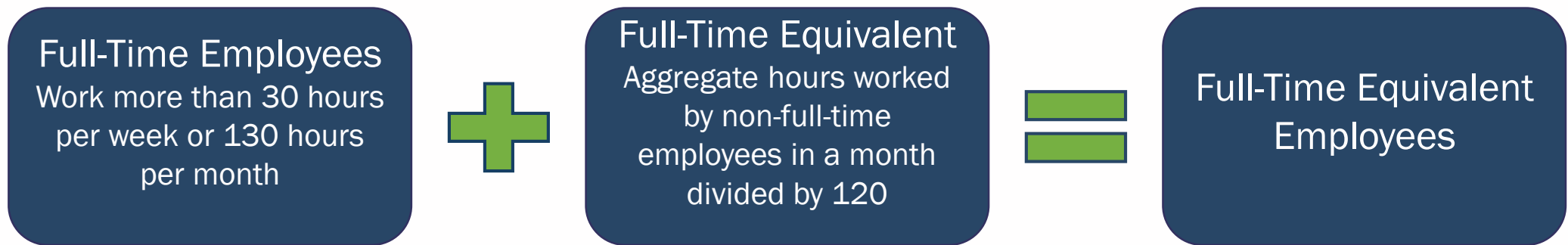
PPP LOAN FORGIVENESS FORMULA



*Full Time Equivalent proportion cannot exceed 100%. FTE Denominator is at the choice of the borrower.

FULL TIME EQUIVALENT – SBA DEFINITION

- Full Time Employee: Any Employee who is employed on average at least 30 hours per week
- Full Time Equivalent Employee: a combination of employees, each of whom individually is not a full-time employee because they are not employed on average at least 30 hours per week, but who, in combination, are counted as the equivalent of a full time-employee



COMPENSATION REDUCTION

- The amount calculated based on full time equivalents will be reduced by the following formula:
 - For employees who did not earn greater than \$100,000 annualized income in any pay period
 - Received a pay reduction equal to 25% or greater as compared to the most recent calendar quarter wages
- Statute refers to “total salary or wages”. Comparing an 8 week total to a 12/13 week total?

COMPENSATION AND FTE REDUCTION EXEMPTIONS

- Any reduction in salary or full-time employment from 2/15/2020 to 4/26/2020 can be remedied if employer restores employment and/or wages by 6/30/2020.
- The same employees do not have to be rehired.

FTE REDUCTION EXEMPTIONS

- Must compute FTEs
 - 1) 8 week period beginning with receipt of the funds;
 - 2) February 15 to June 30, 2019 or January 1 to February 29, 2020;
 - 3) February 15 to April 27, 2020;
 - 4) February 15, 2020;
 - 5) Now until June 30, 2020.
- If FTEs in (1) is less than (2) you have a reduction unless during period (5) you restore the reduction in employees which incurred in (3) relative to (4)

Other Important PPP Considerations

TAX DEDUCTIBILITY

- Section 1106 of the CARES Act state “shall be excluded from gross income.”
- With the expenses being paid out of “tax exempt income,” will expenses paid be eligible for deduction?
- Section 265 of IRC – “Double Dipping”
- Manocchio v. Commissioner
- Funds forgiven will be excluded from gross income for federal purposes, but how will states approach the income/expense items?

SELF-EMPLOYED TAXPAYER CHALLENGES

- Payroll cost for a self-employed taxpayer is equal to the net self-employed income taken from line 31 of a 2019 form 1040 Schedule C.
- Lender will forgive 8/52 of the 2019 line 31 income “owner compensation”

Example: Income of \$110,000

Max Loan Proceeds are \$20,833 = $((\$100,000 / 12) * 2.5)$

Forgivable amount: \$15,384 = $((\$100,000 / 52) * 8)$

Applying for Forgiveness



PEASE
CPAs

APPLYING FOR PPP FORGIVENESS

Who do I apply with?

- Lender (or bank that issued the PPP loan)

What Documentation will I need?

- Number of full-time equivalent employees and pay rates.
- Documentation of any re-hires and compensation restoration as of 6/30/2020 for exemption purposes (If applicable).
- Supporting documentation loan proceeds were spent on approved expenses during cover period.
 - Payroll files for the 8 week period
 - Health Insurance Payments
 - Lease agreement with corresponding payments
 - Utility bills
 - Mortgage or other loan statements showing interest payments



PEASE
CPAs

APPLYING FOR PPP FORGIVENESS

- Lenders are required to make a decision on forgiveness within 60 days of the borrowers application for forgiveness.
- As long as the lender receives the appropriate supporting documentation and certifications from the borrower, the lender will be held harmless and not be subject to penalties if a loan is inappropriately forgiven.
- Much is still to be determined on exactly what is needed for forgiveness. The hope is that months of preparation will yield better results than the 7 days lenders had to roll out the initial application.

SUGGESTED ACTIONS FOR PPP FORGIVENESS

- Consider placing the funds in a segregated account which is only drawn from for approved expenses.
- Instruct any payroll processor to draft from the segregated PPP account with deposited funds.
- Avoid contributing additional funds to the account until PPP amounts have been exhausted.

PEASE, CPAS: PPP LOAN FORGIVENESS PROGRAM

Services that will be offered:

- Advice on how to spend proceeds of PPP Loans
- Assistance in assembling documentation for clients
- Review of supporting documentation of expenses
- After review is preformed, Pease can provide a cover letter and supporting documentation that will be sent to lender for loan forgiveness review.

Send questions to:

Chuck Fenske: cfenske@peasecpa.com

Liz Roth: liz@peaseacq.com

Gordy Jones: gjones@peasecpa.com

