

June 13, 2020

Dear Friends and Colleagues,

There has been a flurry of activity recently concerning the Paycheck Protection Program. We thought it would be helpful to provide some new Frequently Asked Questions (FAQs) relating to these developments.

1. We never applied for a PPP Loan. What is the final deadline to apply, and are there funds left?

The deadline to be *approved* for a PPP Loan is June 30, 2020, so you better jump on it. As of the beginning of last week, the SBA had approximately \$130 billion left to lend.

2. In the June 5, 2020 revised PPP rules, did they change the allocation of loan proceeds that must be spent on payroll costs?

Yes. The old rules required 75% or more of the loan amount be spent on payroll related costs, and 25% or less be spent on non-payroll related costs. The new rules have made it easier on businesses by adjusting the percentages to 60%/40% (payroll/non-payroll).

3. Can businesses still receive partial or apportioned loan forgiveness under these new percentages?

Yes. There was an oversight with the new rules that stated if you didn't clear the 60%/40% spending hurdle, the entire loan wouldn't be forgiven. That has been corrected.

4. Is the Covered Period still eight weeks long?

No. Originally, the Covered Period – the length of time the business has to spend the loan proceeds – was eight weeks long, beginning on the day the loan was deposited. The new rules extend that Covered Period to twenty-four weeks, not to go beyond December 31, 2020. This gives the business owner a much better opportunity to qualify for loan forgiveness. For those businesses that had received their loan prior to the new rules being issued, they have the option to still use the eight-week time-frame.

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5. Did they extend the deadline to rehire workers to pre-pandemic levels?

Yes. The deadline to rehire workers was pushed back from June 30, 2020 to December 31, 2020.

6. Is a business better off applying for forgiveness sooner rather than later?

Possibly, but it depends on many factors. One school of thought is if you clearly qualify for forgiveness now using the eight-week period, why wait? You can beat the crowd and hopefully get a stressful situation behind you. The other school of thought is that the SBA is working on drastically simplifying the forgiveness process, especially for smaller loans, so that may be worth waiting for.

Our recommendation is that businesses wait for more direction from the SBA on the forgiveness application and process. You want to be as sure as possible that you qualify for loan forgiveness before you submit the application. Word is there will be no do-overs allowed.

7. How should a business account for the receipt of the PPP loan, how the funds are spent, and (hopefully) when it is forgiven?

Step 1 - Let's assume the PPP Loan is \$200,000. This should be entered as a deposit into your checking account, and the other side should be entered as a Long-Term Liability: "PPP Loan." Remember, until this loan is officially forgiven, the business owes this money back to the government, which makes it a liability. The repayment process is over one year, which makes it a long-term liability.

Step 2 – The expenses that this \$200,000 are spent on should be recorded in the typical manner done by the business in the past. For instance, payroll should be recorded as it always has, using the same categories/chart of accounts. Rent should be recorded as rent, health insurance should be recorded as health insurance, etc. This will keep your financial statements consistent with prior years and will allow you to monitor costs and benchmarks during this unique period.

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Step 3 – If the loan is entirely forgiven, you will reduce the “PPP Loan” category by \$200,000, and record the other side to “Other Income/Expense”, which is a category at the bottom of your profit and loss. This account is meant for unusual or one-time-only items. The forgiven amount should not be recorded as revenue or a similar category that implies it was earned through typical business operations. This is for two reasons: it will distort your true business results and, if you pay any tax based on gross receipts, it will inflate that amount.

If the loan is partially forgiven – let’s say \$180,000 - you will reduce the “PPP Loan” category by \$180,000, and record the other side to “Other Income/Expense”. This will leave you with a loan balance of \$20,000, which the business would begin to pay down based on the final repayment terms.

8. On a related note, will the expenses be tax deductible even if the loan is forgiven?

That would be a win/win for small businesses, but the IRS issued guidance that stated these expenses would not be deductible. However, a bipartisan group of senators has introduced a bill which would allow the deduction of these expenses, even if the PPP loan was forgiven.

9. What if Full Time Equivalent Employees decreases through no fault of the employer? Will that impact the forgiveness calculation?

No. An exception for FTE reduction was added for any of the following situations:

1. Employer makes a good-faith, written offer to rehire a laid-off employee, but the offer was rejected;
2. Employee voluntarily resigned;
3. Employee was terminated for good cause;
4. Employee requested and received a reduction in his/her hours.

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What documentation should businesses have prepared for the loan forgiveness process?

Here is a summary of the documents you should have at your fingertips during the application process:

- Payroll reports for the period in question;
- Payroll registers listing employee compensation for period in question;
- Federal Form 941s for the period in question;
- State filings which shows state and local taxes assessed on an employee's compensation (i.e. SUTA) for the period in question;
- For organizations that were in business, payroll registers for the period beginning Feb. 15, 2019 through June 30, 2019, and Jan. 1, 2020 to Feb. 29, 2020;
- Group health care benefits documentation and proof of payment showing total costs paid for all health care benefits. Include all employees and company owners. Do not include employee withholdings for their portion of contributions to the plan. Reporting period to match the compensation period included above;
- Retirement plan benefits documentation showing the sum of all retirement plan funding costs paid by the organization. Include funding for all employees and the company owners. Do not include employee withholdings for their portion of contributions to the plan. Reporting period to match the compensation period above;
- Proof of payment and invoices for all non-payroll related costs claimed.

Can rent paid to a related party be used in the forgiveness calculation?

This has not been specifically addressed in guidance released as of June 5, 2020. However, the way the rules are currently written, as long as the lease was in place on February 15, 2020, then these lease payments can be included in the forgiveness calculation.

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Can a business receive a PPP loan and also receive a grant from the Economic Injury Disaster Loan (up to \$10,000)?

Yes, but the amount received from the EIDL will reduce the amount forgiven for the PPP loan.

Can a business pay their employees a premium – Hazard Pay – for coming in and working?

Yes. This could either be in the form of increased wages, or some type of monthly bonus. Remember, though, that the maximum annualized compensation of \$100,000 for an employee still applies.

Can payments made to independent contractors be included in the calculations of the eligible borrower's payroll costs?

No. Any amounts that a borrower has paid to an independent contractor (such as a relief veterinarian) should be excluded from the business's payroll costs.

Should you have any questions about the above, please feel free to contact our office at any time.

Sincerely,



Tom A. McFerson, CPA, ABV
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