

# ADKF

AKIN, DOHERTY, KLEIN & FEUGE, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



Presentation will begin at 10 AM - thank you for being here!

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# Austin Lee

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Austin Lee, CPA is a Tax Manager at ADKF. Austin is a graduate of the University of Texas at San Antonio Class of 2012 (BBA, Accounting). He has been a licensed CPA since 2018. Austin began working at ADKF in January 2012 and was promoted to Tax Manager in January of 2020.

# Paycheck Protection Program: Loan Forgiveness

As of May 1, 2020

# Agenda

- ▶ What is the Paycheck Protection Program Loan?
- ▶ Qualified Expenses
- ▶ Loan Forgiveness Calculation
- ▶ Loan Forgiveness Application
- ▶ Frequently Asked Questions



# Disclaimer

- ▶ The materials provided in this presentation and any comments or information provided by the presenter are for education purposes only and nothing conveyed or provided should be considered legal, accounting or tax advice
- ▶ Please contact your own attorney, accountant or tax adviser with any specific questions you have related to the information provided that are legal, accounting or tax nature
- ▶ This is an ever-changing situation in which additional guidance is needed. The information in this presentation is what has been interpreted as of May 1, 2020.

# What is the Paycheck Protection Program (PPP) Loan?

- ▶ The CARES Act and its most recent amendment have set aside \$659B of loans to help small business, nonprofits, and self-employed individuals with less than 500 employees (exception for food service & accommodations)
- ▶ These PPP Loans are issued by banking institutions through the SBA
- ▶ The PPP Loan Program was designed to provide a direct incentive for small businesses to keep their workers on the payroll

# PPP Loan Terms

- ▶ The SBA can forgive up to 100% of the loan amount received
- ▶ BREAKING NEWS: IRS NOTICE 2020-32:
  - ▶ “No deduction is allowed...for an expense that is otherwise deductible if the payment of the expenses results in forgiveness of a covered loan pursuant to provisions of...the CARES Act”
  - ▶ Therefore, if loan forgiveness occurs it will INCREASE taxable income to the borrower
- ▶ Any amount that is not forgiven becomes a loan, payable over 2 years at 1% interest
- ▶ Loan payments will be deferred for 6 months from the time the loan was received (interest accrued from date of issuance)



# PPP Loan Funds Received - Now What?

- ▶ 8 Week Covered Period begins the date the lender makes the first disbursement of the PPP loan to the borrower
- ▶ Separate bank account vs. separate expenses?
- ▶ Cash paid, not accrued expenses
- ▶ Gathering receipts and records of payment
- ▶ Keep a spreadsheet for the 8 week period
- ▶ Make sure to use only on Qualified Expenses (further defined on next slide)

# Qualified Expenses: Payroll Costs

## ► Qualified Expenses:

### ► Payroll Costs

- Gross Salaries, Wages, Commissions
- Payments for Vacation, parental, family, medical or sick leave
- Payments for provision of group health care benefits, including insurance premiums
- Retirement Benefits
- State or local payroll taxes (SUTA)

### ► **Not eligible:**

- Payments to independent contractors
- Gross pay that exceeds \$100,000
- FICA and federal taxes

# Qualified Expenses: Non-Payroll Costs

- ▶ Mortgage Interest
- ▶ Rent
- ▶ Utilities (electricity, gas, water, telephone, internet, transportation utility fees)
- ▶ Documentation: Rent, utilities, and loan documents must be in writing and already effective as of February 15, 2020

# PPP Loan Forgiveness Calculation

- ▶ Cash paid (not accrued) during the 8 week covered period for qualified expenses
  - ▶ 8 weeks begins the date lender makes first disbursement of PPP loan to borrower
- ▶ Forgivable amount calculation is a 3 Pronged Calculation:
  - ▶ 75 % Payroll / 25 % Non Payroll
  - ▶ Full Time Equivalent (FTE) Reduction
  - ▶ Compensation Reduction
- ▶ Eligibility was calculated on 10 weeks, while coverage period is 8 weeks

### PPP LOAN FORGIVENESS - STARTING POINT

PPP Loan Amount Received				<b>650,000</b>	
<u>Payroll/NonPayroll Costs over 8 Week Period:</u>					
Salary, Wage Commissions, Leave Pay (Capped at \$100,000/EE)				385,500	
Payments for Provision of Group Health Benefits (Premiums included)				2,000	
Retirement Benefits				5,000	
State and Local taxes on Compensation of Employees				5,000	
			Total Payroll	397,500	A
Interest on Covered Mortgage				-	
Covered Rent				96,000	
Covered Utilities				46,000	
			Total Non-Payroll	142,000	B
Potential Loan Amount Forgiven				<b>539,500</b>	A+B
Remaining Loan to be Repaid BEFORE Limitation				<b>110,500</b>	

PPP LOAN FORGIVENESS - STEP 1 (FORGIVENESS BASE)					
PPP Loan Amount Received				650,000	(1)
<u>Payroll/NonPayroll Costs over 8 Week Period:</u>					
Salary, Wage Commissions, Leave Pay (Capped at \$100,000/EE)				385,500	
Payments for Provision of Group Health Benefits (Premiums included)				2,000	
Retirement Benefits				5,000	
State and Local taxes on Compensation of Employees				5,000	
			Total Payroll	397,500	A
Interest on Covered Mortgage				-	
Covered Rent				96,000	
Covered Utilities				46,000	
			Total Non-Payroll	142,000	B
<b><u>FORGIVENESS BASE CALCULATION</u></b>					
Total Spent on Qualified Expenses				539,500	A+B (2)
Reduction for 75% Threshold for Payroll Costs:					
		Loan Forgiveness Cap (\$397K / 75%)	530,000		(3)
		Reduction Amount (\$539K - \$530K)		(9,500)	
New Potential Loan Forgiven (FORGIVENESS BASE)				530,000	MIN (1,2,3)
Remaining loan to be repaid				120,000	



# Full Time Equivalent (FTE) Limitation

- ▶ Full Time Equivalent (FTE) employees are defined as employees who work 30 hours per week or more.
- ▶ FTE also includes the aggregate of employees who work less than 30 hours a week, where the work hours of such employees add up to at least a 40 hour work week
- ▶ The FTE Limitation is calculated by dividing the average number of employees during the covered period by the average number of employees be either (borrower's choice) of the two periods:
  - ▶ February 15, 2019 - June 30, 2019
  - ▶ January 1, 2020 - February 29, 2020

## PPP LOAN FORGIVENESS - STEP 2 (FTE REDUCTION)

PPP Loan Amount Received				<b>650,000</b>	
FORGIVENESS BASE				<b>530,000</b>	<b>A</b>
Average Full-Time Equivalent (FTE) Employees during 8 Week Covered Period			28		
Lesser of the Following Date Ranges (borrower's choice):					
	Average FTEs for the period February 15 to June 30, 2019		46		
	Average FTEs for the period January 1 to February 29, 2020		35		
		Borrowers Choice	35		
		Reduction % (28 FTE / 35 FTE)		-20%	<b>B</b>
<b>FTE Reduction Amount</b>				<b>(106,000)</b>	<b>A X B</b>

# Compensation Limitation

- ▶ Identify all employees who did not receive during any single pay period in 2019, wages or salary at an annualized rate of pay of more than \$100,000 (covered employee)
- ▶ Compare each covered employee's wages or salary during the covered period to their first quarter of 2020
- ▶ Allowable reduction of compensation is 25%, anything beyond that you are reducing your forgivable portion
- ▶ The maximum forgivable compensation allowed per employee during the covered period is \$15,385 ( $\$100,000 / 52 \text{ weeks} \times 8 \text{ weeks}$ )
  - ▶ A bonus paid to an employee who is paid more than \$100K will not be forgivable

### PPP LOAN FORGIVENESS - STEP 3 (COMPENSATION REDUCTION)

PPP Loan Amount Received							<b>650,000</b>	
FORGIVENESS BASE							<b>530,000</b>	A
Employee	Annual Comp (Pre PPP Loan)	Annual Comp Divided by 8 weeks	Actual Comp for Covered Period	Reduction %	Allowable Reduction %	Effective Reduction %	Effective Reduction Amount	
Ace Ventura	65,000	10,000	6,000	-40%	-25%	-15%	(1,500)	
Truman Burbank	325,000	50,000	20,000	-60%	-25%	N/A*	-	
Lloyd Christmas	58,500	9,000	-	-100%	-25%	-75%	(6,750)	
Fletcher Reed	97,500	15,000	14,000	-7%	-25%	N/A**	-	
<b>Compensation Reduction Amount</b>							<b>(8,250)</b>	B
N/A* - No reduction for an employee who made over 100K								
N/A** - No reduction to decrease less than 25%								

## PPP LOAN FORGIVENESS - FINAL SUMMARY

PPP Loan Amount Received				<b>650,000</b>	
FORGIVENESS BASE				<b>530,000</b>	A
FTE Reduction Amount				(106,000)	
Compensation Reduction Amount				(8,250)	
Total Reduction				<b>(114,250)</b>	B
Estimated Loan Forgiven				<b>415,750</b>	A-B
Remaining Loan to be Repaid				<b>234,250</b>	

# RESTORE Employees to Eliminate FTE and Compensation Reduction

- ▶ Reduction in employment or wages that occur between February 15 and April 26, 2020 shall not reduce the amount of the loan forgiveness IF by June 30, 2020 the borrower eliminates the reduction in employees and/or reduction in wages.
- ▶ HOWEVER, we would recommend restoring both pay and employment prior to your 8 week covered period or June 30, 2020 (whichever is earlier).



# Forgiveness Application

- ▶ Documentation verifying number of FTE and pay rates for periods in comparison
  - ▶ Payroll tax filings reported to the IRS
  - ▶ State income, payroll, and unemployment insurance filings
- ▶ Cancelled checks, payment receipts, bank statements
- ▶ A certification from the borrower
- ▶ Any other documentation the SBA determines is necessary

# Frequently Asked Questions

- ▶ When does the 8 week covered period begin?
  - ▶ The date the lender makes the first disbursement of the PPP loan to the borrower.
- ▶ Should payments made to an independent contractor be included in eligible payroll costs?
  - ▶ No.
- ▶ Does the 100K compensation limit per employee apply to all employee benefits of monetary value?
  - ▶ No. The excess of 100K annual limitation applies only to cash compensation
  - ▶ Not included:
    - ▶ Employer contributions to retirement plans
    - ▶ Employer provided health care payments
    - ▶ State and local taxes on compensation

# Frequently Asked Questions (Cont.)

- ▶ Do PPP Loans cover sick leave?
  - ▶ Yes. However, the forgivable portion excludes qualified sick and family leave wages for which a credit has been allowed.
- ▶ Should federal taxes be included in payroll costs?
  - ▶ FICA, FUTA and federal withholding are not included in the calculation of payroll cost
- ▶ How does my PPP Loan affect other benefits provided by the CARES Act?
  - ▶ If you have any portion of the PPP loan forgiven, you are ineligible for the Employee Retention Credits or the deferral of payroll tax payments.
  - ▶ You are still eligible for an Economic Injury Disaster Loan (EIDL) and corresponding grant. However, any amount you receive as a grant from the EIDL will reduce your forgivable portion of your PPP.

# Frequently Asked Questions (Cont.)

- ▶ Has any guidance been provided for businesses that received PPP loans but have been closed due to COVID-19?
  - ▶ Not at this time
- ▶ Has the SBA issued any forms or applications for loan forgiveness?
  - ▶ Not at this time
- ▶ What is the 75 % / 25% split based on? The loan amount or the amount spent?
  - ▶ At least 75% of the amount spent has to be on payroll costs. The remaining amount should be for qualified non-payroll costs.
- ▶ Am I allowed to pay bonuses to my employees to increase spending on payroll cost?
  - ▶ Yes, but payment must be made in the 8 week covered period.

## Frequently Asked Questions (Cont.)

- ▶ Will termination of an employee affect both the FTE and compensation reduction?
  - ▶ Yes, however at this time we are awaiting additional guidance from the SBA
- ▶ If I am self-employed, do I still qualify for loan forgiveness?
  - ▶ We are awaiting additional guidance from the SBA. It's currently assumed that eight weeks worth of your 2019 net profit will be eligible along with other qualified expenses.



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