

PPP Loan Forgiveness



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Disclaimer

This presentation is based on relevant government guidance available as of August 24, 2020. There are many areas of the CARES Act, related guidance and the SBA's Loan Forgiveness Application that are unclear and additional clarification from the government is needed. In addition, there may be legislation in future weeks that modifies the program rules. This presentation includes our best interpretation of the guidance.

PPP Loan Forgiveness

- GAAP: When is it Income?
- FAQ Knowns and Unknowns
- Taxes and Tax Returns
- Best practices
- Open Q&A



GAAP: When is it Income?

GAAP

US Generally Accepted Accounting Principles

<https://future.aicpa.org/topic/accounting-reporting/covid-19-accounting-reporting>

Provides resources on PPP loans, leases, estimates, subsequent events, audit concerns, etc.

GAAP

US Generally Accepted Accounting Principles

Currently there are 4 options:

- Government grant model - not for profits
- Debt model
- IAS 20 – government assistance
- Gain contingency model



Knowns vs. Unknowns

Knowns

- The most recent guidance on loan forgiveness was issued in FAQ form on August 4, 2020 then revised on August 11.
- <https://home.treasury.gov/system/files/136/PPP--Loan-Forgiveness-FAQs.pdf>



The Unknowns - FTEs

- How does the FTE computation work when you opt for the 24-week covered period?
- If you capture and report data for all 24 weeks, it works the exact same as for 8 weeks.
- Average FTEs for covered period compared to Average FTEs for selected base period (two choices)

The Unknowns - FTEs

- If you spend all of the PPP funds in less than 24 weeks, you are eligible to file for forgiveness at that time (straight from the lips of Mnuchin). HOWEVER, there is no guidance yet on how filing before 24 weeks affects the FTE computations.
- We are referring to this as “Transition Guidance”... how do you complete the application if you spend the money in 10 weeks, 12 weeks, etc.

The Unknowns - FTEs

- It seems logical to us that once the PPP funds are spent, a company would no longer be required to maintain the same FTE count as the base period.
- How can the SBA expect a company to maintain the FTE count when the funds are gone?
- But without Transition Guidance, we have no authoritative answer to either agree or disagree with our logic.

The Unknowns - FTEs



- So what should you do?
- Wait for Transition Guidance to apply for forgiveness
- The decision to let people go should be a business decision, not tied to forgiveness.
- Mathematically, the ability to include and report 24 weeks of costs seems to ensure that almost all businesses, even those with an FTE reduction, will still get 100% forgiveness (excluding the effects of an EIDL grant).

The Unknowns - FTEs

Example: \$250K PPP loan

A business who received a PPP loan had \$100K average payroll costs per month in 2019.

If the business had a 20% FTE reduction, they may have only \$80,000 in average payroll costs per month during their covered period.



The Unknowns - FTEs



$\$80,000 * 6 \text{ months (equivalent of 24 weeks)} = \$480,000$

\$480,000 payroll costs

* 80% (to reflect the FTE reduction)

=====

\$384,000 allowable payroll costs

Compared to the \$250,000 Loan amount, the company gets 100% forgiveness (assuming no EIDL grant). Even without including any nonpayroll costs.

The Unknowns - FTEs

- While the math seems to work, we realize that companies do not want to have to wait and report 24 weeks of data.
- This is why the Transition Guidance is important, to provide the framework for how to compute and report costs and FTEs when the funds are spent in less than 24 weeks

Owner Compensation



Owner Compensation

- The FAQ on loan forgiveness (8/4/20) clarified that owner compensation includes: wages only
- To compute the limitation (\$15,385 or \$20,833), you would use wages only
- *A previous IFR inferred that owner compensation included benefits. It does not.*

Owner Compensation



Owner Compensation

- The same FAQ clarified that the maximum amount of retirement contribution for an owner cannot exceed 2.5/12 of the 2019 contribution (for 24 weeks)
- In addition, employer paid health insurance premiums for Owners in an S-corp are not allowable costs.

Owner Compensation



Owner Compensation

- This computation makes the definition of “Owner” even more important.
- Current definition of owner-employee: “an owner who is also an employee” assume it means any individual with any ownership percentage.

Owner Compensation

c. Are there caps on the amount of loan forgiveness available for owner-employees and self-employed individuals' own payroll compensation?

Yes. For borrowers that received a PPP loan before June 5, 2020 and elect to use an eight-week covered period, the amount of loan forgiveness requested for owner-employees and self-employed individuals' payroll compensation is capped at eight weeks' worth (8/52) of 2019 compensation (i.e., approximately 15.38 percent of 2019 compensation) or \$15,385 per individual, whichever is less, in total across all businesses. For all other borrowers, the amount of loan forgiveness requested for owner-employees and self-employed individuals' payroll compensation is capped at 2.5 months' worth (2.5/12) of 2019 compensation (i.e., approximately 20.83 percent of 2019 compensation) or \$20,833 per individual, whichever is less, in total across all businesses.

The Unknowns - Payroll



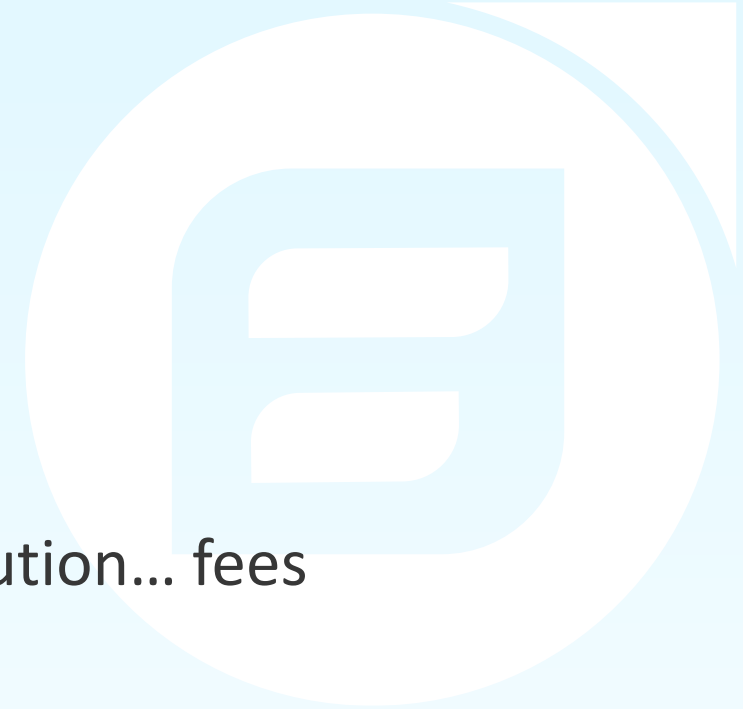
What are the compensation limits if a business files for forgiveness after 8 weeks but before 24 weeks?

- Owner compensation limits: \$15,385 and \$20,833.
Is it a cliff? Proration seems illogical.
- Employee compensation limits: \$15,385 and \$46,154
Cliff seems illogical, proration makes more sense. \$1,923 for each week of payroll included?

The Unknowns – Costs

Utilities

- “transportation utility” was finally defined as “distribution... fees assessed by state and local governments”
- AICPA still believes that fuel is an eligible cost, based on an example in the IFR issued on 4/14/20.



The Unknowns – Costs

Retirement

- No guidance on which cost are eligible, here are the options as we see them:
 - 2020 costs incurred (paid when due)
 - 2020 costs incurred and paid within the covered period
 - 2019 accrued costs paid within the covered period



Taxes and Tax Returns

Taxes

- As of today, August 24, 2020, the forgiven portion of the loan is not taxable and the expenses for which the PPP money was used for are not deductible.
- Your expenses may hit in one tax year and the loan forgiveness income in another... how does that get reported?
- Legislation has been introduced to make the expenses deductible

Taxes

Under current law:

- What is the impact of nondeductible payroll on your R&D Credit or QBI computation?
- How should you compute projected taxable income and quarterly estimates?
- Fiscal year filers.... How do you compute your extension payment?



Taxes

What to do?

- Fiscal year filers... Consider an extension
- Decide how to compute estimates and extension payments, use current law or compute assuming expenses will be deductible.
- This is a business owner / business risk decision



Best Practices

Best Practices

- If your loan is less than \$150,000 consider waiting to apply for forgiveness
- There is proposed legislation that would reduce the forgiveness paperwork required for loans this size
- With 10 months to apply for forgiveness, there is plenty of time to take a wait and see approach



Best Practices

- Don't rush to apply
- Legislation continues to evolve
- Final clarity is needed on “transition guidance”
- Stay in touch with your lender



Best Practices

- If you are considering a sale of your business, or purchasing a business that has a PPP loan...
- Consult with the lender as to the implications of any transaction on the PPP loan
- The SBA version of PPP promissory note says a borrower will be in default if it “reorganizes, merges, consolidates or otherwise changes ownership or business structure without [PPP lender’s] prior written consent”



Best Practices

- SBA may also need to consent to the transaction
- Also... if a transaction is in the middle of the covered period, there is the issue of who the employees work for
- Takeaway: Talk to the lender and an attorney if you are considering a transaction



Q&A
