

PPP Update

April 1, 2021



ARIZONA
SMALL
BUSINESS
BOOT CAMP &
COLLECTIVE

RESPOND → PLAN → RETURN STRONGER



CariAnn J. Todd, CPA

Disclaimer

This presentation is based on relevant government guidance available as of March 31, 2021. This presentation includes our best interpretation of the guidance available today.

The information provided here today is high level. Consult with your CPA for more detailed information specific to your situation.

PPP 2

PPP 2

- PPP Extension Act of 2021 (signed March 30, 2021)
- Extends the application deadline through May 31, 2021
- Adds a 30-day period beyond May 31, 2021 for the SBA to process applications pending



PPP 2

General:

- Any eligible business who did not receive a PPP loan in 2020 is able to apply for and receive a PPP loan under the same terms as round 1
- Any borrower who returned all or part of their round 1 PPP loan can reapply to receive the maximum amount, as long as they have not received forgiveness

PPP 2

- Any business who DID RECEIVE a PPP loan in 2020 is able to apply for and receive a 2nd PPP loan, as long as they meet the requirements for round 2.
- These are referred to as “Second Draw” PPP loans



PPP2

Requirements for a Second Draw PPP loan:

- 300 or fewer employees per location
- Has used, or will use, all of the 1st PPP loan
- 25% decline in gross receipts in any quarter in 2020 when compared to the same quarter in 2019
- Small 501(c)(6) org with 150 or fewer employees (not lobbying organizations)



PPP2

2019	Q1	Q2	Q3	Q4	Total
Contracting revenue	1,000.00	1,100.00	1,200.00	1,300.00	4,600.00
2020	Q1	Q2	Q3	Q4	Total
Contracting revenue	1,100.00	750.00	1,000.00	1,500.00	4,350.00
% Change	Q1	Q2	Q3	Q4	Total
Contracting revenue	10%	-32%	-17%	15%	-23%



Is this company eligible?

- They meet the requirement, a one quarter year over year decline in revenue of 25% or more
- The next question is necessity

Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.

PPP2

Rules for a Second Draw PPP loan:

- Loan amount will be 2.5 times average monthly payroll (3.5 time for NAICS code “72”)
- Average payroll can be based on calendar 2019 or the one-year period before the date of the loan
- Overall maximum loan amount is \$2M



PPP 2

Recent legislation changed the metric for Schedule C applicants to be able to use gross income instead of net income.

Schedule C applicants – no employees – formula for PPP2 loan amount (maximum loan amount is \$20,833):

- Gross income from a 2019 or 2020 IRS Form 1040, Schedule C, line 7
- Divide by 12, multiply by 2.5

Part I Income			
1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	150,000
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	150,000
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6 <input type="checkbox"/>	7	150,000
Part II Expenses. Enter expenses for business use of your home only on line 30.			
8	Advertising	8	1,500
9	Car and truck expenses (see instructions).	9	12,000
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	10,000
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	
14	Employee benefit programs (other than on line 19).	14	
15	Insurance (other than health)	15	10,000
16	Interest (see instructions):		
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	8,000
18	Office expense (see instructions)	18	9,500
19	Pension and profit-sharing plans	19	2,000
20	Rent or lease (see instructions):		
a	Vehicles, machinery, and equipment	20a	
b	Other business property	20b	24,000
21	Repairs and maintenance	21	2,500
22	Supplies (not included in Part III)	22	
23	Taxes and licenses	23	1,500
24	Travel and meals:		
a	Travel	24a	
b	Deductible meals (see instructions)	24b	1,000
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	
b	Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a <input type="checkbox"/>	28	82,000
29	Tentative profit or (loss). Subtract line 28 from line 7	29	68,000

PPP 2



Schedule C applicants – no employees – Example

150,000 Gross income
Divided by 12 = 12,500 (maximum of \$8,333)

8,333
X 2.5

20,833 PPP2 loan amount

PPP 2

Under the original formula, this business would have only received a PPP loan of:

$$68,000 / 12 * 2.5 = 14,167$$

The new law increases their loan to 20,833

Gain of \$6,666



PPP 2

Schedule C applicants – with employees – formula for PPP2 loan amount:

Gross income from a 2019 or 2020 IRS Form 1040, Schedule C, line 7

Minus: the sum of lines 14, 19 and 26

Equals: Total

Total divided by 12 = A (maximum of \$8,333)

Compute average monthly payroll = B

$A + B * 2.5 = \text{PPP2 loan amount}$

Part I Income			
1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	150,000
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6 <input type="checkbox"/>	7	150,000
Part II Expenses. Enter expenses for business use of your home only on line 30.			
8	Advertising	8	500
9	Car and truck expenses (see instructions).	9	
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	
14	Employee benefit programs (other than on line 19)	14	5,000
15	Insurance (other than health)	15	
16	Interest (see instructions):		
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	1,000
18	Office expense (see instructions)	18	2,500
19	Pension and profit-sharing plans	19	2,000
20	Rent or lease (see instructions):		
a	Vehicles, machinery, and equipment	20a	
b	Other business property	20b	
21	Repairs and maintenance	21	500
22	Supplies (not included in Part III)	22	
23	Taxes and licenses	23	
24	Travel and meals:		
a	Travel	24a	
b	Deductible meals (see instructions)	24b	
25	Utilities	25	
26	Wages (less employment credits)	26	50,000
27a	Other expenses (from line 48)	27a	
b	Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a <input type="checkbox"/>	28	66,000
29	Tentative profit or (loss). Subtract line 28 from line 7	29	84,000

PPP 2



Schedule C applicants – with employees – Example

150,000	Gross income
(5,000)	line 14
(2,000)	line 19
(50,000)	line 26

93,000	
Divided by 12 = 7,750 (A)	

PPP 2

Average monthly payroll:

5,000 line 14 – health insurance

2,000 line 19 – profit sharing plan

50,000 line 26 – wages

57,000

Divided by 12 = \$4,750 (B)



PPP 2

7,750	(A) - Owner's eligible income
4,750	(B) - Average monthly payroll

12,500	
X 2.5	Multiply by 2.5

31,250	PPP2 loan amount



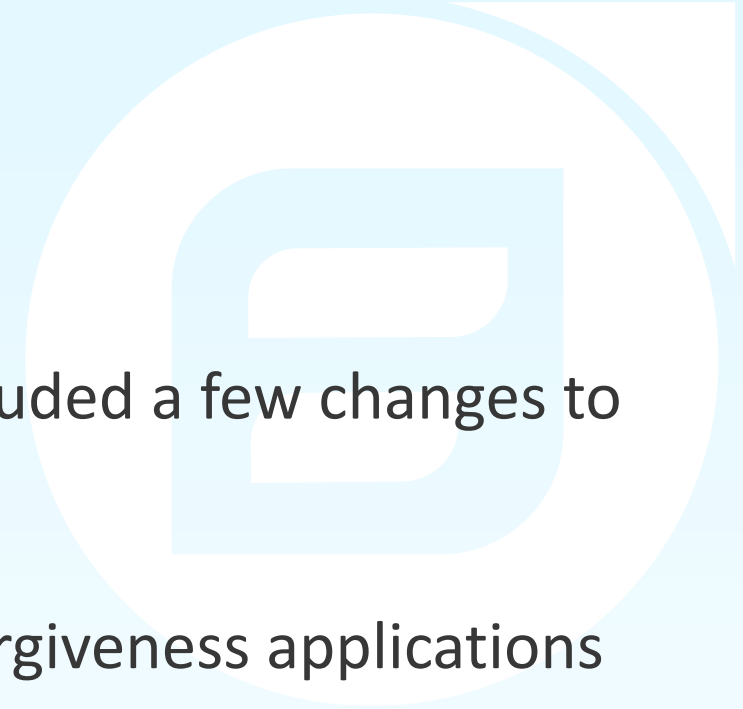
PPP 2

Link to the SBA form PPP2 loan application form for Schedule C applicants:

<https://home.treasury.gov/system/files/136/PPP-Borrower-Application-Form-for-Schedule-C-Filers-Using-Gross-Income.pdf>

PPP Loan Forgiveness

Changes to Loan Forgiveness



- The Consolidated Appropriations Act, 2021 (CAA) included a few changes to the loan forgiveness rules.
- On January 19, 2021 the SBA released revised loan forgiveness applications that incorporate the changes.
- Forms can be found here:
<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

Changes to Loan Forgiveness



- Form 3508S can now be used for loans up to \$150,000
- HOWEVER, the breaks given to loans under \$50,000 do not apply to loans between \$50,001 and \$150,000
- The latter must still comply with the FTE reduction rules and the wage rate reduction rules.

FTE Reduction Rules



- Borrowers who complete the 3508S, but who meet the requirements outlined in the instructions to 3508EZ (unable to operate at the same level due to COVID orders) may be exempt from the FTE reduction.
- Those who are not exempt must adjust their costs eligible for forgiveness by the ratio of employees during the covered period to employees during a selected base period.
- The rules are outlined in the instructions to Form 3508

FTEs

- Basic FTE Formula: Hours worked per week / 40

Examples...

Joe works 30 hours a week, he is a 0.75 FTE

Mary works 20 hours a week, she is a 0.5 FTE

Bob works 55 hours a week, he is a 1.0 FTE

(can't be more than 1.0)

- For a payroll that includes the 3 employees above, the FTE count is: $0.75 + 0.5 + 1.0 = 2.25$



FTEs

- The Application allows a simplified method of computing FTEs. Employees working 40 or more hours are 1.0, employees <40 are 0.5.

Example using the simplified method...

Joe works 30 hours a week, he is a 0.5 FTE

Mary works 20 hours a week, she is a 0.5 FTE

Bob works 55 hours a week, he is a 1.0 FTE

- For a payroll that includes the 3 employees above, the FTE count is: $0.5 + 0.5 + 1.0 = 2.0$



FTEs

- For all periods that you have to compute FTEs, you need to pick one method (actual or simplified) and use it for all periods.
- Owners are EXCLUDED from all FTE computations.
- “Owner” has been defined as “an owner who is also an employee.” Assume any employee that has any stock ownership interest in a C-corp or S-corp is included.

FTEs

- The math for computing FTEs is based on the following paragraph in the Application:

Average FTE: This calculates the average full-time equivalency (FTE) during the Covered Period or the Alternative Payroll Covered Period. For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower.

- Step 1: Compute average number of hours paid per week
- Step 2: Divide by 40
- Step 3: Round to the nearest tenth

FTEs

- The FTE average during the covered period (or APCP) is then compared to the FTE average during the “base period”
- There are two options for the base period:
 - Option 1: 2/15/19 – 6/30/19
 - Option 2: 1/1/20 – 2/29/20
- Compute your FTE averages for both periods to determine which one is lower.

FTEs

- EXAMPLE: Compare the results:
Option 1 average FTEs: 10.5
Option 2 average FTEs: 6.8
- Select option 2 so that you are comparing your covered period to the smaller number.



FTEs



- Let's do the math...
Average FTEs was 8.4 for the covered period
Option 1 average FTEs: 10.5
Option 2 average FTEs: 6.7
- Using Option 1, there would be a 20% reduction in the amount of costs eligible for forgiveness.
 $(10.5 - 8.4) = 2.1$ $2.1 / 10.5 = 20\%$
- With Option 2, there's NO reduction.

Wage rates

- There is a second forgiveness reduction formula that needs to be considered.
- Concept: If wage rates decrease more than 25%, there is a reduction to costs eligible for forgiveness.



Wage rates

- Example: Joe is full-time and normally makes \$1,000 per week, but you cut his salary to \$650 per week (still full-time). If Joe was receiving the reduced salary for all eight weeks in the covered period, you would reduce eligible loan forgiveness by \$800 for Joe.

$\$1,000 * 25\% = \250 is the allowed reduction

Joe's reduction is $\$1,000 - \$650 = \$350$

Penalty is: $(\$350 - \$250) * 8 \text{ weeks} = \800

Wage rates

- Example: Mary makes \$20 per hour but you cut her rate to \$13 per hour. Mary averages 30 hours per week. The reduction to loan forgiveness for Mary is \$480.

$\$20 * 25\% = \5 is the allowed reduction per hour

Mary's reduction was $\$20 - \$13 = \$7$

Penalty is: $(\$7 - \$5) * 30 \text{ hours} * 8 \text{ weeks} = \480



Wage rates

- The revised Application instructions indicate that wage rates (hourly rate or base salary) would be compared between *the most recent calendar quarter* and the covered period.



Covered Costs

- The amount of forgiveness is based on the amount of loan proceeds spent on covered costs during the Covered Period
- Covered costs:
 - Payroll costs
 - Rent
 - Interest
 - Utilities
- Costs added by the CAA:
 - Covered operations expenditures
 - Covered property damage costs
 - Covered supplier costs
 - Covered worker protection expenditures



Covered Costs – Payroll Costs

- Payroll costs... this is the exact same definition that you used when you compiled your 2019 data to get your PPP loan.
 - Gross wages (salaries, wages, commissions, etc.)**
 - Cash tip or equivalent
 - Vacation, parental, family, medical or sick leave**
 - Group health insurance premiums, employer portion
 - Retirement contributions, employer portion
 - State unemployment taxes

Covered Costs – Payroll Costs

** The amount of wages claimed cannot include qualified sick leave wages for which a credit is allowed under the Families First Coronavirus Response Act (FFCRA)

The amount of wages claimed cannot include qualified family leave wages for which a credit is allowed under the FFCRA.

The benefits in FFCRA are separate from PPP, but you can't “double dip”.



Covered Costs – Payroll Costs

** The amount of wages claimed cannot include wages that are used for the Employee Retention Credit.

The ERC program and the PPP are separate, but you can't "double dip".



Covered Costs – Nonpayroll Costs



- Rent... Includes rent for real or personal property under a leasing agreement in force (signed) before February 15, 2020.
- Real property = building, storage unit
Personal property = equipment, vehicles

Covered Costs – Nonpayroll Costs

- Utilities... Includes services for the distribution of electricity, gas, water, sewer, transportation, telephone or internet access for which service began before February 15, 2020.

Covered Costs – Nonpayroll Costs

- Interest... Includes interest (not principal) on loans secured by real or personal property that were in effect before February 15, 2020.
- If you have any capital leases, they would not get counted as “rent” since they are a financing agreement. The monthly interest component would be considered a covered cost.

Covered Costs – Nonpayroll Costs

- Covered operations expenditures:



Payments for any business software or cloud computing service that facilitates business operations, product or service delivery, the processing, payment or tracking of payroll expenses, human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records and expenses.

Covered Costs – Nonpayroll Costs

- Covered property damage costs:



Costs related to property damage and vandalism or looting due to public disturbances that occurred during 2020 that were not covered by insurance or other compensation.

Covered Costs – Nonpayroll Costs

- Covered supplier costs:



Expenditures made to a supplier of goods for the supply of goods that are essential to the operations of the Borrower at the time at which the expenditure is made, and made pursuant to a contract, order or purchase order in effect prior to the beginning of the covered period (or for perishable goods, the contract order or PO may have been in effect before or at any time during the covered period)

Covered Costs – Nonpayroll Costs

- Covered worker protection expenditures:



Operating or capital expenditures that facilitate the adaptation of the business activities of an entity to comply with the requirements established or guidance issued by the DHHS, CDC or OSHA or any equivalent requirements established or guidance issued by a state or local government during the period starting 3/1/2020 and ending on the date on which the national emergency for COVID-19 expires....

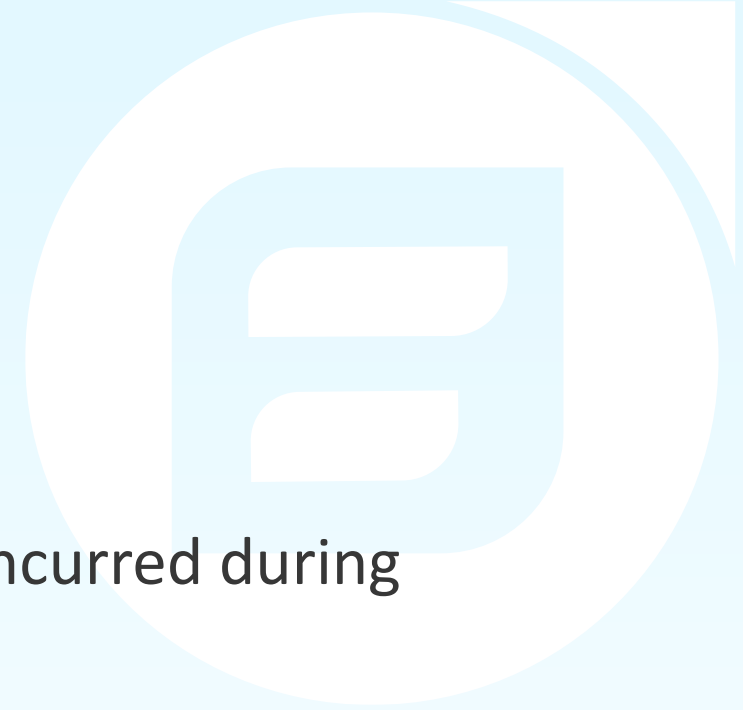
Covered Costs – Nonpayroll Costs

- Covered worker protection expenditures (continued):
... related to maintenance standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19, but does not include residential real property or intangible property.

Covered Costs

IMPORTANT DISTINCTION:

All eligible payroll and nonpayroll costs must be paid or incurred during the covered period.



Covered Costs

- Once you have all of your covered costs captured for the covered period, you have to evaluate the total and the components.
- At least 60% of total costs incurred must be payroll costs.
- There is a reduction in forgiveness if you don't reach 60% or if you don't spend all of the money.



Covered Costs

- Example: You receive a \$100,000 PPP loan. You spend \$80,000 on payroll costs and \$15,000 on other covered costs.
- Total spent = \$95,000
- Payroll costs = 84% ($\$80,000 / \$95,000$)
- Reduction is \$5,000. You met the 60% test, but you didn't spend all of the proceeds on covered costs.



Covered Costs

- Example: You receive a \$100,000 PPP loan. You spend \$55,000 on payroll costs and \$45,000 on other covered costs.
- Total spent = \$100,000
- Payroll costs = 55% ($\$55,000 / \$100,000$)
- Reduction is \$8,333. Maximum forgiveness is a function of the amount spent on payroll costs:
 $\$55,000 / 60\% = \$91,667$ maximum forgiveness



Summary of the Forgiveness Formula

- Forgiveness amount is the lesser of the following 3 numbers:
 - ~ (Total spent – wage reduction) * FTE Reduction Quotient
 - ~ PPP Loan Amount
 - ~ Total payroll costs incurred divided by 0.6

Employee --- Retention --- Credit

Employee Retention Credit (ERC)

The Consolidated Appropriations Act 2021 (CAA), which was passed in late 2020 did two things:

- Removed the prohibition against companies who receive a PPP loan from taking the ERC
- Extended the ERC through June 30, 2021 with some modifications to the rules for 2021

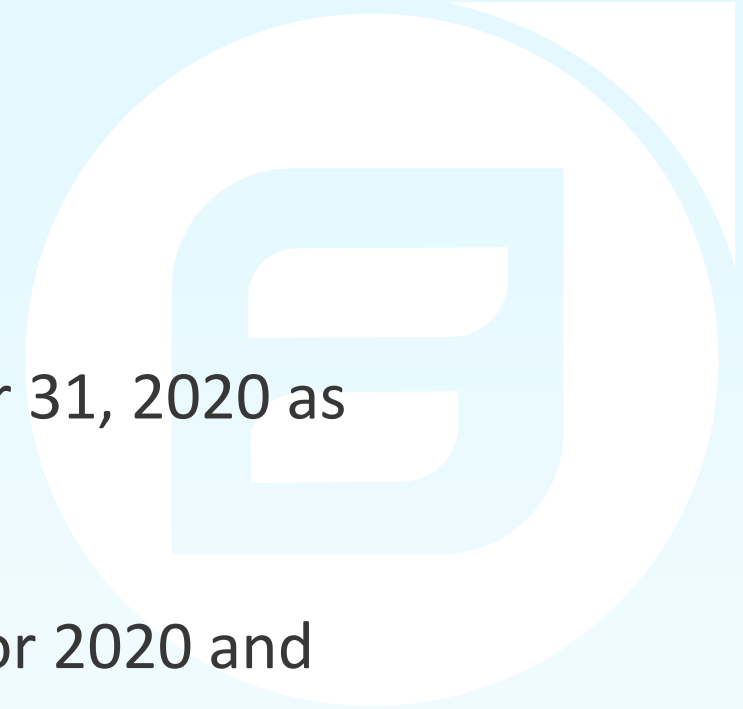
Employee Retention Credit (ERC)

The ERC is computed using eligible wages and allocable health care costs:

- Eligible wages are generally gross wages paid during the relevant period
- Allocable health care costs are costs for insurance that are related to the relevant period (could be paid earlier or later)

Eligibility

- The credit is available for March 12, 2020 – December 31, 2020 as well as January 1, 2021 – June 30, 2021
- The eligibility and credit computations are different for 2020 and 2021
- **The American Rescue Plan Act of 2021 extended the ERC through December 2021**
- Some slight modifications to the rules



ERC 2020 - Eligibility

Two different ways to be eligible for the 2020 credit:

- Business had operations that were fully or partially suspended during any calendar quarter in 2020 due to government COVID-related orders. The credit only applies to wages paid during the portion of the quarter that the business is suspended, not the entire quarter, OR
- Business experienced a significant decline in gross receipts during any quarter in 2020. An employer is considered to have a significant decline in gross receipts for the period beginning with the first quarter in 2020 for which its gross receipts are less than 50 percent of gross receipts from the same quarter in 2019 and ending with the earlier of January 1, 2021 or the first quarter after the quarter for which gross receipts are greater than 80 percent of gross receipts for the same quarter in 2019.

ERC 2021 - Eligibility

Two different ways to be eligible for the 2021 credit:

- Business had operations that were fully or partially suspended during the 1st or 2nd quarter in 2021 due to government COVID-related orders. The credit only applies to wages paid during the portion of the quarter that the business is suspended, not the entire quarter, OR
- Business experienced a significant decline in gross receipts during any quarter of 2021. An employer is considered to have a significant decline in gross receipts only for the quarters for which its gross receipts are less than 80 percent of gross receipts from the same quarter in 2019.

ERC - Eligibility

- For the first bullet, the company should document the specific government orders that caused them to be fully or partially shut down
- Only wages and allocable health costs during the shut down period are eligible for the ERC

ERC - Eligibility

- For the second bullet, the company will have to look at 2021, 2020 and 2019 gross receipts
- Use the accounting method that the company uses for internal accounting or their income tax method of accounting
- For **2021** only: There is a lookback rule, that says if you don't meet the test for a quarter you can look at the immediately preceding quarter

ERC 2020 - Eligibility

EXAMPLE 1					EXAMPLE 2				
2019					2019				
Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
50,000	60,000	70,000	80,000	260,000	50,000	60,000	70,000	80,000	260,000
2020					2020				
Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
75,000	25,000	35,000	60,000	195,000	75,000	25,000	58,000	75,000	233,000
Relationship of 2020 to 2019					Relationship of 2020 to 2019				
Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
150%	42%	50%	75%	75%	150%	42%	83%	94%	90%
NOT ELIGIBLE	Eligible Qtr	Eligible Qtr	Eligible Qtr		NOT ELIGIBLE	Eligible Qtr	Eligible Qtr	NOT ELIGIBLE	

ERC 2021 - Eligibility

EXAMPLE 1						EXAMPLE 2		
2019					The example at right is a demonstration of the allowable lookback rule.	2019		
Q1	Q2			Q4 2019		Q1 2019	Q2 2019	
50,000	60,000			80,000		50,000	60,000	
2021					2020	2021	2021	
Q1	Q2			Q4 2020	Q1 2021	Q2 2021		
35,000	45,000			60,000	45,000	45,000		
Relationship of 2021 to 2019					Relationships			
Q1	Q2			Q4	Q1 2021	Q2 2021		
70%	75%			75%	90%	75%		
Eligible Qtr	Eligible Qtr				Eligible Qtr	Eligible Qtr		

ERC – Compute the Credit



Wages/costs eligible for the credit is dependent on how many employees (EEs) you had in 2019.

Compute the number of full-time EEs you had in 2019.

Only include EEs who average more than 30 hrs/wk, OR who had 130 hours in a month.

Formula:

Number of full-time EEs in each calendar month in 2019
divided by 12

ERC 2020 – Compute the Credit

- Employers with 100 or fewer full-time EEs in 2019 can use all wages (including health care costs) paid: during the affected period/quarter and after March 12, 2020, minus any FFCRA wages.
- Employers with more than 100 employees can only take the credit on wages and health care costs paid to/for employees who were not working (literally paid while staying home and not providing services).

ERC 2020 – Compute the Credit

The credit is the first 50% of the first \$10,000 in wages and allocable health care costs paid during the affected period/quarter to each eligible employee

Maximum credit for 2020 is \$5,000 per employee

ERC 2021 – Compute the Credit

- Employers with 500 or fewer full-time EEs in 2019 can use all wages (including health care costs) paid: during the affected period/quarter, minus any FFCRA wages.
- Employers with more than 500 employees can only take the credit on wages and health care costs paid to/for employees who were not working (literally paid while staying home and not providing services).

ERC 2021 – Compute the Credit

The credit is the first 70% of the first \$10,000 in wages and allocable health care costs paid during the affected period/quarter to each eligible employee

Credit is computed independently for Q1 and Q2 of 2021

Maximum credit for 2021 is \$28,000 per employee
(\$7,000 per quarter)

ERC – Compute the Credit

Important restriction #1:

Wages do not include wages paid under the family and/or sick leave provisions of FFCRA, the Families First Coronavirus Response Act. In addition, wages claimed for employees under the Work Opportunity Credit do not qualify as wages that may increase this credit.

ERC – Compute the Credit

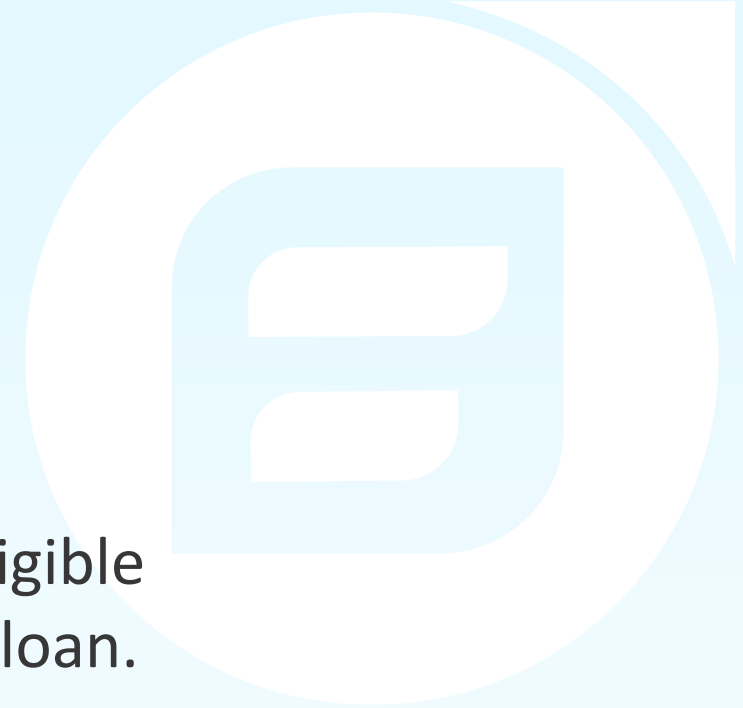


Important restriction #2:

Wages paid to relatives or family members generally do not qualify. With entities, one applies these relationship rules depending on a particular level of ownership.

See question #59: <https://www.irs.gov/newsroom/covid-19-related-employee-retention-credits-determining-qualified-wages-faqs>

ERC – Compute the Credit



Important restriction #3:

Any wages used in the computation of the ERC are not eligible covered costs on the application for forgiveness of a PPP loan.

For 2020, retroactively claiming the credit is difficult if you have already applied for forgiveness.

For 2021, entities who are applying for a PPP2 loan have time to plan and allocate wages between FFCRA, ERC and PPP.

ERC – Compute the Credit

Important restriction #4:

There are aggregation rules that can affect parent-subsubsidiary or brother-sister groups, or a combined group of corporations. These complex rules can also reach partnerships, trusts and estates.

Aggregation can affect qualification in such areas as to whether there is a full or partial shutdown as well as measuring the decline in gross receipts.

ERC – Claim the Credit



- Claim the credit on the quarterly Form 941
- File Form 941X for retroactive 2020 claims
- Credits in excess of the quarterly employment tax deposits, you can request an advanced payment from the IRS on Form 7200

<https://www.irs.gov/newsroom/how-to-claim-the-credits>

Q&A
