

ALEGRIA+COMPANY. P.S

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CERTIFIED PUBLIC ACCOUNTANTS

**PAYCHECK PROTECTION PROGRAM AND  
ECONOMIC INJURY DISASTER LOANS -  
COVID-19: THE GOVERNMENT'S RESPONSE TO  
THE PANDEMIC**

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# PAYCHECK PROTECTION PROGRAM (PPP)

- Loan Eligibility Requirements:
  - Small businesses, non-profits, veterans' organizations or tribal businesses with 500 employees or less, including self-employed individuals \*
  - Business must have been operational as of 2/15/2020
- Loan Amount:
  - The lesser of average eligible monthly payroll multiplied by 2.5; or \$10MM
  - Payroll includes:
    - All compensation paid, including PTO, medical leave, severance, group health benefits, and retirement benefits (salaries and wages capped at \$100,000 on an annualized basis for each employee) – bank policies may differ
    - State and local taxes paid on employee compensation
    - Compensation of independent contractors or self-employed individuals (capped at \$100,000 on an annualized basis)

# PAYCHECK PROTECTION PROGRAM (PPP)

- Loan Forgiveness Overview (still waiting for final guidance):
  - Principal and accrued interest may be forgiven on a loan-by-loan basis in an amount equal to **allowable costs** incurred and paid during the eight-week period after the loan is made (covered period)
  - Allowable costs include: (a) payroll costs, (b) interest payments on any mortgage in force prior to 2/15/2020, (c) rent payments on any lease agreement in force prior to 2/15/2020, and (d) utility expenses for services in place before 2/15/2020
  - Loan forgiveness will be reduced for borrowers who decrease their full-time headcount or who decrease salaries and wages in excess of 25% during the covered period
  - You have until 6/30/2020 to restore your full-time employment and salary levels for any changes made between 2/15/2020 and 4/26/2020
  - Non-payroll costs cannot be more than 25% of the forgiven loan amount (based on current guidance)
- Good Faith Certifications
  - Current uncertainty makes loan necessary to support ongoing operations (safe harbor for loans under \$2,000,000)
  - Funds will be used to retain workers, finance payroll expenses, make mortgage, rent and utility payments
  - Other document verification

# PAYCHECK PROTECTION PROGRAM (PPP)

- Loan Terms:
  - Commercial banks (and some non-bank lenders) will handle the application process and the loan servicing (including forgiveness)
  - No personal guarantee or collateral required \*
  - Interest Rate fixed at 1%, due in two years with no pre-payment penalties
  - Payments are deferred for six months, but interest accrues
  - Any forgiven loan amount will not be considered taxable income
    - IRS has issued guidance that expense related to forgiven debt is not deductible \*\*
- Benefits are mutually exclusive
  - You are allowed to either take loan forgiveness or the employee retention credit or the delay and deposit of employer payroll taxes
  - Payroll amounts do not include qualified sick leave or family leave pay for which a credit is allowed under the Families First Coronavirus Response Act

# PAYCHECK PROTECTION PROGRAM (PPP)

- Loan Forgiveness Detail:
  - Allowable costs incurred and paid during the covered period.
    - At least 75% need to be for payroll costs
  - Reduced proportionately for any reduction in the monthly average full-time equivalent employees during the covered period to:
    - The monthly average full-time equivalent employees between 2/15/2019 and 6/30/2019, OR
    - The monthly average full-time equivalent employees between 1/1/2020 and 2/29/2020
      - Seasonal employers must use 2/15/2019 through 6/30/2019 for the calculation
  - Reduced for decrease in salary and wages paid to an employee in the covered period in excess of 25% of the total salary and wages during the most recent full quarter employed.
  - Only applies to employees who did not earn an annualized rate of pay in excess of \$100,000 in any pay period in 2019.

# PAYCHECK PROTECTION PROGRAM (PPP)

- Loan Forgiveness Detail:
  - If a head count reduction occurs between 2/15/2020 and 4/26/2020, the employer can re-hire the affected employee and restore his or her pay by 6/30/2020 to avoid counting that employee for the reduction in loan forgiveness.
  - If an employee refuses to return to work, the employer will not be penalized for reduction of salary if a good-faith, written request was made to re-hire the employee.
- Need for additional guidance
  - What is a full-time equivalent? Is it 40 hours per week or 30 hours per week?
  - Is the loan forgiveness based on 75% payroll costs of the total loan or 75% payroll costs of the total costs paid during the covered period?
  - What is the definition of “costs incurred and payments made?”
  - What about businesses who cannot re-open to full capacity during the initial 8 weeks? Will they be given additional time?

# PAYCHECK PROTECTION PROGRAM (PPP)

- Example calculation
  - Loan amount \$250,000
  - Covered period allowed costs
    - Payroll costs \$200,000
    - Interest, rent, and utilities \$50,000
  - FTE average monthly head count
    - Covered period 17
    - Comparison period 20
  - Employee A wages
    - Covered period \$7,000
    - Prior quarter \$10,000



# PAYCHECK PROTECTION PROGRAM (PPP)

- Forgiveness
  - Loan amount \$250,000
  - Covered period allowed costs
    - Payroll costs \$200,000
    - Interest, rent, and utilities \$50,000
  - FTE average monthly head count
    - Covered period 17
    - Comparison period 20
  - Employee A wages (earned less than \$100,000 in 2019)
    - Covered period \$7,000
    - Prior quarter \$10,000
- \$200,000 payroll costs / \$250,000 total loan = 80%.
  - **75% or more to payroll costs – no reduction**
- 17 / 20 = 85% of prior FTE
  - **15% reduction in forgiveness**
- \$10,000 - \$7,000 = \$3,000 reduction in wages
  - 25% of \$10,000 = \$2,500 threshold for reduction
  - **\$3,000 - \$2,500 = \$500 reduction in forgiveness**

# PAYCHECK PROTECTION PROGRAM (PPP)

- Example calculation

Loan amount	\$ 250,000.00
Reduction for FTE decrease	(37,500.00)
Reduction for wage decrease	<u>(500.00)</u>
Amount forgiven	<u><u>\$ 212,000.00</u></u>

# ECONOMIC INJURY DISASTER LOANS (EIDL)

- The SBA is offering low-interest federal disaster loans for working capital up to \$2MM to small businesses suffering substantial economic injury as a result of COVID-19
- A loan advance of up to \$10,000 can be made within three days of a successful application and the loan advance does not need to be repaid
- Participation in the EIDL program does not effect eligibility for a PPP loan, the amount applied for under the EIDL can be rolled into a PPP loan to qualify for larger loan forgiveness amounts and the lower interest rate
- Maximum interest rates are 3.75% for small businesses and 2.75% for non-profits
- 30-year term with 12-month payment deferral
- SBA is the lender
- Agriculture entities are now eligible

# ECONOMIC INJURY DISASTER LOANS (EIDL)

- Eligible uses (ordinary operational needs):
  - Fixed debts such as rent and utilities (no in-service date requirement)
  - Ordinary payroll (no employee or tax limits)
  - Accounts payable
  - Other bills that could have been paid if the disaster had not occurred
- Ineligible uses:
  - Expansion
  - Physical repairs
  - Prepayment of debt
  - Refinancing of debt
  - Dividends

# QUESTIONS AND RESOURCES

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Guidance from US Department of Treasury

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

Guidance and application information from US Small Business Administration

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>

IRS Coronavirus Resource Center

<https://www.irs.gov/coronavirus-tax-relief-and-economic-impact-payments>