

Your PPP Covered Period is About to End, Now What?

AS OF 10/8/20



Canon Capital

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Steven Moyer

Owner & Director of Tax Services

Steve has been with Canon Capital since 1999 and has been practicing in public accounting for over 30 years. He received his BS in Accounting/Business Management with a minor in Psychology from Eastern Mennonite University. He is a member of the AICPA, the PICPA, the National College Advocacy Group and the AICPA Tax, Personal Financial Planning and the Forensic and Valuation Services sections. Steve specializes in tax, estates and trusts, personal financial and college planning services, and business tax planning. He also has significant experience in church, non-profit, and private foundation tax areas. In addition to being a CPA he also holds the Personal Financial Specialist (PFS) designation, the Chartered Global Management Accountant (CGMA) and the Certified Specialist in Estate Planning (CSEP) designation. Steve and his wife reside in Souderton. Steve has three children and enjoys traveling, playing sports, gardening, and bicycling.



Brent Thompson

Director and Manager

Brent joined Canon Capital in 1998 and is responsible for providing management advisory services, tax and general business planning, tax preparation, and financial statement preparation and review services for numerous businesses and their owners. In addition, he assists the firm directors with scheduling, staff development, and business development. He earned his Bachelor of Business Administration degree from Temple University. In addition to holding his CPA designation he also holds the Certified Management Accountant (CMA) designation and a Chartered Global Management Accountant (CGMA) designation. Brent is a member of the AICPA and the Institute of CMA's, and is a former instructor of business development courses at Montgomery County Community College. He has also served on the Economic Restructuring Committee for the Souderton/Telford downtown revitalization efforts and the Stewardship Committee for Keystone Fellowship. He currently serves as the treasurer of the Indian Valley Chamber of Commerce. Brent resides in Souderton with his wife and three children. He enjoys boating, water-skiing, and working on home improvement projects.



The Bridge so Far.....

- ▶ CARES ACT (incl PPP)

- Components of PPP

- Eligibility

- Loan Amount

- Application

- Use of funds

- Forgiveness

- Documentation

- ▶ Paycheck Flexibility Act

- ▶ Throughout

- 24 IFRs

- 77 SBA FAQs

- ▶ Families First Act, Executive Orders

- ▶ Potential PPP2

Since We've Last Met (6/11)

- ▶ Interim Final Rule (IFR) issued 6/17
- ▶ Forgiveness Applications continue to be revised
- ▶ SBA FAQ updated (8/4)
- ▶ IFR issued 8/11
- ▶ SBA opens the forgiveness portal for lenders around 8/12, with very little activity to date
 - Some banks processing, some are not, Some are processing above \$150K only
 - Still unanswered questions
 - Waiting on future legislation
- ▶ IFR issued 8/24

Odds and Ends

- ▶ State of the IRS
 - Mail and responsiveness
 - COVID-19 relief guidance
 - Taxability of forgiveness
 - Strong support to make expenses deductible
 - IRS announces no 1099-C forms to be issued by lenders
- ▶ “Pending” Legislation
 - PPP2
 - \$150B left unused in PPP1
 - Automatic forgiveness under a certain dollar amount
 - Strong support for this
 - Huntington Bank – not accepting applications under \$150K currently

Accounting for PPP Loans

- ▶ Four possible solutions
 - 1) Loan – recorded as debt until forgiven or paid off (including accrued interest)
 - 2) Grant (IFRS) – recorded as deferred income liability; reduced with offset through earnings as expenses related to the loan are recognized
 - 3) Grant (FASB) – recorded as refundable advance; reduced and recognized as contributions once conditions of the release met/waived
 - 4) Gain Contingency – recorded as liability until all the contingencies related to the receipt of the assistance are met and the gain contingency is recognized.

Things to Keep in Mind

- ▶ Accounting for the loans – keep in mind, the bank is *on your side*. They want the loan forgiven as well. Talk to them if you are uncertain in any area
- ▶ Remember, you had to certify that “current economic uncertainty” made the loan necessary to continue operations
 - However, a safe-harbor was passed that allows any loan under \$2M was made in good faith
 - In addition, loans over \$2M *will* be reviewed by SBA
- ▶ The SBA retains the right to review *ANY* loan for six years.
 - You still need documentation – you just don’t have to include it with the application under the safe harbor

Things to Keep in Mind

- ▶ Not all loan agreements are the same
 - ALL loan agreements prior to 6/5 are wrong and have incorrect wording (covered period, payment due dates, 75/25 ratio)
 - There may be incorrect wording in the loan agreement forbidding things like owner distributions, ownership changes, and transfer of assets.
 - May have come from “old” SBA agreements
 - Banks may have used their own forms
- ▶ Thus, YOU CAN NOT certify with the forgiveness application that you complied with the loan terms. There should be waivers for these items

IFR Issued June 17

- ▶ Timeline of applications
 - Business has 10 months after the last day of the covered period to apply for forgiveness with the lender
 - The lender has 60 days to determine if all, a portion of, or none of the loan should be forgiven
 - Remember, the lender has NO responsibility to determine if a business was eligible for the loan
- ▶ The SBA has 90 days to review and agree, or disagree with the lender's determination on forgiveness

Factors to Consider in Timing of Forgiveness Application

- ▶ Have you spent all the money
- ▶ Is the lender accepting applications
- ▶ Does the borrower need to make business operating decisions that may include reducing FTEs
 - You can reduce FTEs immediately after application
- ▶ What tax planning can be done around the deductibility of the expenses paid
- ▶ Is the loan over/under the dollar amount of potential threshold for simplified forgiveness
- ▶ Banking covenants may be out of compliance
- ▶ Is the borrower trying to sell the business

IFR Issued June 17

- ▶ Answered that 2019 year-end retirement contributions paid in the covered period are includable for forgiveness
- ▶ Included further guidance on owner compensation limits, however, at the time, we were still waiting on the definition of an owner

Forgiveness Applications

▶ 3508EZ

- Can use if one of the three are applicable
 - 1) Self-employed with no employees
 - 2) Did not reduce annual salary or hourly wage of any employee* by more than 25% during the chosen covered period **compared with January 1 to March 31** AND the borrower did not reduce the number of employees or the average paid hours of employees between 1/1/20 and the end of the covered period
 - Ignoring reductions for inability to rehire employees due to refusal or inability to hire similar employees
 - * only employees that did not receive, during any single pay period in 2019, wages at an annualized rate in excess of \$100K

Forgiveness Applications

▶ 3508EZ

- Can use if one of the three are applicable
 - 3) Did not reduce annual salary or hourly wage of any employee* by more than 25% during the chosen covered period compared to the period between 1/1/20 and 3/31/20 AND the borrower was unable to operate during the covered period at the same level of business activity as before 2/15/20 due to compliance with requirements established or issued between 3/1/20 and 12/31/20
 - * only employees that did not receive, during any single pay period in 2019, wages at an annualized rate in excess of \$100K

Unable to Operate at the Same Level of Business

- ▶ Guidance by
 - Secretary of Health and Human Services
 - Director of the Centers for Disease Control
 - Occupational Safety and Health Administration
 - Any guidance related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19

Example – via AICPA

- ▶ Borrower has online sales and a physical store
- ▶ During the covered period, local government order all non-essential businesses, including the borrower's, to shut down based in part on COVID-19 guidance issued by the CDC in March
- ▶ Borrower's business activity during the covered period was reduced compared to activity before Feb. 15, 2020
- ▶ Borrower satisfies the safe harbor
- ▶ Forgiveness amount is not reduced because of a reduction in FTEs
- ▶ Required in good faith to maintain records

Recap of FTE Reduction Exceptions

- ▶ Not penalized for:
 - Any positions for which the Borrower made a good-faith, written offer to rehire (or restore in full) an individual who was employed on February 15, **AND** the employee rejected the offer **AND** Borrower was unable to hire similarly qualified employees before December 31
 - Any employee who, during the covered period, was fired for cause, voluntarily resigned, or voluntarily requested a reduction in hours

Recap of FTE Reduction *Safe Harbors*

- ▶ Not penalized for:
 - Operating restrictions due to guidance previously discussed
 - December 31 restore date – Borrower reduced FTE employee levels between February 15 and April 26, 2020 and then restored its FTE employee levels by not later than December 31 to FTE levels in the pay period that included February 15. (Unclear how this works if application is made prior to 12/31)

FAQ 8/4

- ▶ No payments are due on the loan if forgiveness application is made within 10 months after the end of the covered period.
 - Bank has 60 days to review and submit to SBA
 - SBA has 90 days to make a decision
 - There are appeal rights, but obviously, take your time and do it as organized and correct as possible when submitting

FAQ 8/4

- ▶ Reinforced bills/expenses incurred in the covered period can be paid after if done by the next billing cycle
- ▶ Payroll costs incurred before the covered period, but paid in the covered period, are eligible costs
- ▶ Use gross wages
- ▶ Lost tips, bonuses, and hazard pay were eligible
- ▶ Only the employer share of health insurance is eligible
- ▶ Interest incurred on non-secured credit is NOT eligible
- ▶ Transportation was defined as fees charged by state/local on utility bills

IRF Issued 8/24

- ▶ Clarified an owner–employee is 5% and over
- ▶ Sub–let space reduces the eligibility of rent expense eligibility for forgiveness. Net rent must be used
- ▶ Must prorate rent and utilities the same as 2019 filing for forgiveness eligibility (includes home based businesses)
- ▶ Rent to a related party is eligible for forgiveness – but only up to mortgage interest incurred by the related party. Mortgage had to exist prior to 2/15/20
- ▶ Mortgage interest paid to related party is NOT eligible for forgiveness

Owner Comp Limits

Source – AICPA Town Hall Series

Refresher on compensation and non-cash limits

Cash compensation limits

Compensation limit depends on owner-employee status:

- Defined in Aug. 4 FAQs as “an owner who is also an employee.”
- Clarified in Aug. 24 IFR that for **S- & C-Corps, 5% ownership** is the threshold for being an owner-employee.

Payroll caps for loan forgiveness based on covered period

	8 weeks	24 weeks
Non-owner employees	15,385	46,154
Owner-employees	15,385	20,833

Treatment of non-cash compensation for owners

	Eligible?		
	Health ins.	Retirement	State & local taxes (3)
Self-employed (Schedule C/F)	no	no	no
General Partner	no	no	no
S corp owner-employee	no (1)	yes (2)	yes
Family members of 2% S corp owner (4)	no (1)	yes	yes
C corp owner-employee	yes	yes (2)	yes

(1) S corp owner-employee and family members health insurance would have been included in 2019 W-2.

(2) Retirement capped a 2.5/12 of 2019 contribution.

(3) Taxes assessed on compensation.

(4) Family attribution rules of 26 U.S.C. 318 apply - generally spouse, children, grandchildren, parents

Owner Comp Example – 24 Weeks

Source – AICPA Town Hall Series

Owner-employee compensation: S corp example

Filing at end of a 24-week covered period

Employees	Ownership %	Owner-employee	Cash Compensation 2019	Owner-employee pro-rated comp 2019 /12 * 2.5	Covered Period Cash Compensation (24 wks)	Eligible for Forgiveness	Note
Marcia	15%	Yes	45,000	9,375	39,231	9,375	A
Jan	25%	Yes	95,000	19,792	43,847	19,792	A
Greg	3%		110,000		50,770	46,154	B
Bobby	4%		45,000		39,231	39,231	C
Mike	5%	Yes	50,000	10,417	23,077	10,417	A
Carol	48%	Yes	150,000	31,250	69,231	20,833	A
	100%		495,000		265,386	145,801	

A - For those with 5% or more ownership, comp is limited to lesser of 2.5/12 * 2019 comp or covered period comp. (subject to comp limits)

B - Greg doesn't meet the 5% ownership test. His eligible comp is the lesser of comp paid or the max comp limit for employees (\$46,254 for 24 weeks).

C - Bobby got a raise from \$45,000 to \$85,000. Because his ownership is less than 5%, he is not limited by 2019 comp. Like Greg, he's limited to the lesser of comp paid or the max comp limit for employees.

Owner Comp Example – 12 Weeks

Source – AICPA Town Hall Series

Owner-employee compensation: S corp example

Filing at end of 12 weeks – halfway through a 24-week covered period

Employees	Ownership %	Owner-employee	Cash Compensation 2019	Owner-employee pro-rated comp 2019 /12 * 2.5	Comp if applying at 12 weeks	Eligible for Forgiveness	Note
Marcia	15%	Yes	45,000	9,375	19,615	9,375	A
Jan	25%	Yes	95,000	19,792	21,924	10,417	A
Greg	3%		110,000		25,385	23,077	B
Bobby	4%		45,000		19,615	19,615	C
Mike	5%	Yes	50,000	10,417	11,539	10,417	A
Carol	48%	Yes	150,000	31,250	34,615	10,417	A
	100%		495,000		132,693	83,317	

A - For those with 5% or more ownership, comp is limited to lesser of pro-rated 2.5/12 * 2019 comp, comp paid or pro-rated covered period comp max. For a 12-week period it's $\$20,833/24*12 = \$10,417$.

B - Greg doesn't meet the 5% ownership test. His eligible comp is the lesser of comp paid (\$25,385) or the pro-rated max comp limit for employees. For this example it's $\$46,154/24*12 = \$23,077$.

C - Bobby got a raise from \$45,000 to \$85,000. But his ownership is less than 5% so he is not limited by 2019 comp. Like Greg, he's limited to the lesser of comp paid (\$19,615) or the pro-rated max comp limit for employees (\$23,077).

Other Relief

Source – AICPA Town Hall

PPP	EIDL	Employee Retention Credit (ERC)	Employer Payroll Tax Deferment	Main Street Lending	Additional Relief Programs
<p>Available Aid \$659B</p> <p>Available To Sole Proprietors, ICs, Companies with <500 employees</p> <p>Loan Specifics 2.5 months payroll; can become grants</p> <p>Limitations Eff. Aug 2020, no new PPP loans being issued.</p>	<p>Available Aid \$367B</p> <p>Available To Sole Proprietors, ICs, Companies with <500 employees</p> <p>Loan Specifics Up to \$10K in grants, low interest loans</p> <p>Limitations Eff. May 2020, loan limit is \$150k. Eff. July 2020, grant funding is no longer available.</p>	<p>Size Up to \$5,000 per employee</p> <p>Business Size Rules differ for companies above and below 100 employees</p> <p>Eligibility Cannot accept PPP loan; Must be fully or partially closed OR have 50% drop in quarterly gross receipts</p>	<p>Deferred Employer portion of social security taxes</p> <p>Repayment Half by end of 2021, half by end of 2022</p> <p>Eligibility PPP Flexibility Act now allows PPP borrowers to be eligible regardless of forgiveness</p>	<p>Timeline Revised June 17; Lender reg open – borrowers pending.</p> <p>Available To Up to 15,000 employees or \$5B revenue (2019)</p> <p>Loan Specifics \$250K - \$300M Depends on loan: Main Street New Loan, Priority Loan, Expanded Loan Facility, *NFP New Loan Facility or NFP Expanded Loan Facility</p> <p>Restrictions Dividends, Buybacks, Compensation, CARES</p>	<p>Many Other New federal relief programs (PPP2, etc.)</p> <p>State</p> <p>Local</p> <p>Private Grants</p> <p>Landlords</p> <p>Etc.</p>

As of Sept. 22, 2020

Coming Early January 2021
Canon Capital Wealth Management
Presents “Planning Under the
SECURE ACT”

- ▶ Setting Every Community Up for Retirement Enhancement Act of 2019
- ▶ Passed December 2019
- ▶ Many Retirement Changes Effective for 2020
- ▶ Largely missed due to COVID

Questions

- ▶ Send a quick review comment to info@canoncapital.com
- ▶ Feel free to email questions to Steve or Brent
- ▶ Thank you again to the Director Group of Canon Capital allowing us to invest this time
- ▶ Please leave us a positive review on Google, Facebook