



## AAEP COVID-19 Business Update: Loans, Forgiveness, Payroll Pressures and More

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### Agenda

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- ▶ CARES Act Rescue Loan Update
- ▶ PPP Loan Question and Answer
- ▶ PPP Loan Forgiveness
- ▶ Retirement Fund Issues – Required Minimum Distributions (RMDs)
- ▶ Furlough vs. Layoff and other fun unemployment stuff
- ▶ Payroll Processing – Risk and Controls



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## SBA Rescue Loan Update

- ▶ “SBA is unable to accept new applications at this time for Economic Injury Disaster Loan (EIDL) COVID-19 related assistance program (including GRANTS) based on available appropriations funding.”
  - ▶ “Applicants who previously submitted applications will continue to be processed on first-come, first-served basis.”
- ▶ “SBA is currently unable to accept new applications for the Paycheck protection Program based on available appropriations funding.”
  - ▶ <https://www.sba.gov/sites/default/files/2020-04/PPP%20Deck%20copy.pdf>
  - ▶ <https://www.sba.gov/local-assistance/find/?type=SBA%20District%20Office&pageNumber=1>
  - ▶ <https://www.sba.gov/offices/district/az/phoenix>



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## Senate approves \$370B in additional small biz funding

- ▶ Passed in Senate yesterday (4/21); House vote expected today
- ▶ **\$484 Billion**
  - ▶ \$75B → hospitals/health care providers
  - ▶ \$25B → COVID testing
  - ▶ **\$310B** → SBA Paycheck Protection Program (UNKNOWN – **Any program changes?**)
    - ▶ \$60B → small banks, credit unions, minority owned banks;
      - \$30B → FDIC Insured Banks with assets of \$10B to \$50B
      - \$30B → Lenders with <\$10B in assets (low income community financing)
    - ▶ **\$50B** → SBA EIDL program
      - ▶ Working capital for payment of fixed debts, payroll, AP, and other bills
      - ▶ 3.75%, up to 30 years
    - ▶ **\$10B** → SBA EID Grants (up to \$10K)



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## Rescue Act update

- ▶ **EIDL Grants now appearing (up to \$10K) as of 4/21/2020**
  - ▶ How do you use them?
  - ▶ Will SBA contact you regarding EID LOAN itself?
    - ▶ Terms purportedly maturity of 30 years/3.75% interest
  - ▶ Will reduce the amount of the PPP Loan forgiveness
- ▶ **PPP Loan Forgiveness**
  - ▶ Will IRS allow deduction for the expenses used to support forgiveness?
  - ▶ Savings and Loan Crisis – Supreme Court ruling in Centex supports small business position for PPP Loans
- ▶ **PPP Loan – additional funding?**
  - ▶ Keep nagging your banker/ start looking to move your business to a better bank
  - ▶ Morality of it all: Ruth Chris and steaks for all : at least 5 Class Action Suits



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## Take and Give

- ▶ **Record breaking donor responses to disaster relief**
- ▶ **Vanguard Charitable (4/21)**
  - ▶ Donor Advised Funds
  - ▶ Grants 4,500, \$55,500,000
  - ▶ Average \$12,300
  - ▶ 48% increase
- ▶ **Fidelity Charitable (4/22)**
  - ▶ \$160,745,000 COVID related
  - ▶ \$2,126,827,000 total in 2020



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## Questions

- ▶ Can I as a solo practitioner apply for PPP without having a payroll? Anyone that works for me is an independent contractor.
  - ▶ SBA Interim Final Rule
  - ▶ <https://www.sba.gov/sites/default/files/2020-04/Interim-Final-Rule-Additional-Eligibility-Criteria-and-Requirements-for-Certain-Pledges-of-Loans.pdf>
  - ▶ Page 4, Question I – Sole Proprietors without employees and with employees
  - ▶ How to apply, how proceeds can be used, documentation for forgiveness
  - ▶ \$15,385 max per individual in 8-week measurement period



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## Questions

- ▶ Good news! I got my PPP loan, it went straight into my business checking. I know you said to have a separate account and I had asked my bank manager this too, she thought no, but should I? I can keep separate records, and
- ▶ At what point can I start writing the paychecks on this? Can I use them for my paychecks I am writing now for last week, or should the money be used for work done after the PPP was deposited?
- ▶ Does the degree of COVID-19 impact on our practice's gross revenues determine the amount of PPP loan forgiveness ?
  - ▶ Will we need to show comparisons of gross revenues from previous years to the 8 week measurement period?



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## Questions

- ▶ We received funding through our bank. We based our hours on full time employees only (as it was stated in the loan paperwork). We have one part time employee (office work) that is only working 1-2 hours per week. Do we ask her to claim unemployment? Do we pay her out of the same account if she continues working? Unsure what to do with the lack of guidelines!



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## Questions

- ▶ Does the PPP Loan forgiveness calculation (8 weeks) include
  - ▶ Contract labor?
  - ▶ Employer payroll taxes?
  - ▶ What is included in “Utilities”? Can our business phone line expense be included?
    - ▶ “Covered Utility Payments” = Distribution of services which began before 2/15/2020:
      - Electric
      - Gas
      - Water
      - Transportation (?)
      - Telephone (cell/smart phones?)
      - Internet access



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## Questions

- ▶ Regarding PPP loan forgiveness: Is it permissible to increase wages (by way of increasing hourly pay rate, salary, or adding bonuses- for employees or owners) during the PPP's 2 months of forgiveness in order to maximize the amount of loan forgiveness a practice can receive?
- ▶ To get credit when claiming forgiveness on PPP loan, is it enough to write checks at the end of the 8-week period or do they have to have been cashed by the deadline? I have a payroll due at the deadline and need to know if I need to run payroll earlier. I understand that even with direct deposit there is a 2-business day delay before the withdrawals show up on the account.



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## PPP Fund Tracking

- ▶ Separate Bank Account
- ▶ Target 75% spend on "Payroll Costs"
  - ▶ Gross Wages
  - ▶ Health Insurance Premiums
  - ▶ Retirement Funding
  - ▶ State unemployment tax
- ▶ Until we know better...get everything PAID within the 8 week window



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## Calculating and Tracking PPP Forgiveness

### CARES Act Section 1106

- ▶ Loan Amount entitled for forgiveness equal to the sum of the following (“incurred and paid” during the 8-week period beginning on the loan origination date).
  - ▶ “Payroll costs” = same meaning as Section 1102 (application calculation)
  - ▶ Covered mortgage interest obligation (mortgage on real or personal property incurred prior to 02/15/20)
  - ▶ Covered rent obligation (rent obligated under a leasing arrangement in force before 02/15/20)
  - ▶ Covered utility payment (electric, gas, water, transportation, telephone, internet access which service began before 02/15/20)



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## Calculating PPP Forgiveness

### At least 4 hurdles to clear

1. Forgiven amount cannot exceed amount of loan
2. At least 75% of the PPP loan proceeds shall be used for **payroll costs**
  - ▶ Only 25% of the loan may be used on non-payroll costs, such as mortgage interest, rent, and utilities).
3. Adequate FTEs as compared to base pre-COVID time
4. Wages per employee at least 75% of first quarter 2020 wages
5. WILD CARD – “Rehire” provision at 6/30/2020 ???



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## Calculating PPP Forgiveness

### 3. Reduction in FTEs may reduce forgiveness:

Loan Forgiveness Amount (X)

Avg. # of FTEs per month (over 8-week period)  
Avg. # of FTEs (02/15/19 - 06/30/19)

OR

Avg. # of FTEs per month (over 8-week period)  
Avg. # of FTEs (01/01/20 - 02/29/20)



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## Calculating PPP Forgiveness

AND (continued)

### 4. Reduction in Salary/Wages may reduce amount of loan forgiveness:

- ▶ Any reduction in total salary of any employee that is in excess of 25% of the total wages for the employee during the most recent full quarter before the covered period.
  - ▶ Applies only to employees that received 2019 annualized salary of less than \$100,000
  - ▶ Omits special rule for seasonal employees

WILD CARD ? Employers can mitigate – or eliminate these reductions – if they eliminate the reduction in EE's (the number of FTEs) or reduction in wages – **awaiting clarification on rehire provision (June 30 calculation??)**



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## Calculating PPP Forgiveness

### ▶ Full Time Equivalencies

Average FTEs will be a combination of employees, each of whom individually if not a full-time employee (employee on average worked at least 30 hours per week), but who, in combination, are counted as equivalent of a full-time employee.

Step one: Add up all employees who average 30 hours or more per week  
 >or= 30 hours = 1 FTE (and > 40 = 1 FTE)

Step two: For all employees <30 hours (“part-time”), tally hours for the 4 week period used to measure and divide by 120

Step three: Add FTEs from step one to FTEs from step 2 = total FTEs



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## Calculating PPP Forgiveness

### Loan Forgiveness Application (as we currently understand it)

- ▶ Submission to lender:
  - ▶ Verification of FTEs and pay-rates
  - ▶ Payroll tax filings
  - ▶ State income, payroll, and unemployment insurance filings
  - ▶ Documentation that covered mortgage, rent, and utility obligations were made
  - ▶ Certified statement that the amount of forgiveness was required to retain employees or meet the covered obligations.
- ▶ Lender has 60 days to render a forgiveness determination – **Lenders still awaiting guidance from SBA**
- ▶ **Still awaiting guidance as to “incurred” and “paid” meaning.**
  - ▶ “...eligible for forgiveness of indebtedness ...in an amount equal to the sum of the following costs incurred and payments made during the covered period [8 weeks]”



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## CARES Act - Retirement Fund considerations

### ▶ Section 2202 – Tax-Favored Withdrawals

- ▶ Coronavirus-related distributions:
  - ▶ Any time in 2020
  - ▶ To an individual
    1. Diagnosed with SARS-CoV-2 by CDC-approved test, or
    2. Whose spouse is diagnosed by CDC-approved test, or
    3. Who experiences adverse financial consequences as result of quarantine, furlough, lay off, reduced work hours, lack of child care, closing or reducing hours of owned-business, or “other factors”
  - ▶ Borrow up to lesser of \$100,000 or 100% of account balance
    - ▶ Before CARES, was 50%/\$50,000
    - ▶ Pay back loan over time; interest not tax deductible
  - ▶ Or, distribution
    - ▶ 10% penalty abated (<59 ½ years of age)
    - ▶ 3 years to pay taxes on the income (that otherwise would have been tax deferred)
- ▶ ▶ Plan amendment by 12/31/2022 (calendar year plans)



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## CARES Act - Retirement Fund considerations

### ▶ Section 2203 – Temporary waiver on Required Minimum Distributions

- ▶ RMD age was changed by Secure Act (early 2020)
  - ▶ To 72 years from 70 ½ years
- ▶ For 2020, RMDs can be STOPPED
  - ▶ Stock market down
  - ▶ Defer taxes
- ▶ Defined contribution retirement plans and annuity contract amendment required by 12/31/2022 (calendar year plans)



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## Thank You and Stay Safe

**Veterinarian Fulfills Lifelong  
Dream of Seeing Patients  
While Owners Wait in Parking  
Lot**

