

The logo for SAX, featuring the letters 'S', 'A', and 'X' in a bold, sans-serif font. The 'S' and 'A' are light blue, while the 'X' is a darker blue. The background consists of a dark blue gradient with large, overlapping, semi-transparent chevron shapes pointing to the right.

SAX

Direction that
moves you forward

This slide deck contains information on the COVID-19 related Loan Options & Forgiveness Strategies and is the most up-to-date as of **April 23, 2020**.

Changes are constant and additional guidance is on-going. We will keep you posted on changes through our weekly webinar updates and COVID-19 resource center. You can also reach out to your Sax advisor for the most recent information.

Please visit our Resource Center at www.saxllp.com for on-going updates, or email covid19@saxllp.com with questions.



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COVID-19 Resource Center

On your road to recovery, lean on Sax for up-to-date information relevant to your state and business.

Preparing for Recovery **Loan Options &** **Forgiveness Strategies**

April 23, 2020

Our firm provides the information in this webinar presentation for general guidance only, and does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind.

The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers.

Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation.

Today's Agenda

- Introduction
- Updates
- Key PPP & EIDL Takeaways & Considerations
- Loan Forgiveness
- Best Practices

Introduction



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Updates

Updates

Governmental Action

- House & Senate approved additional \$370B in funding for small businesses this week
 - \$310B for PPP
 - \$60B for EIDL
- Presidential approval anticipated as well
- Certification & other eligibility requirements

Updates

Governmental Action

- **Large businesses shouldn't be able to get PPP loans, Mnuchin insists**
- Apr. 21, 2020 - Treasury Secretary Steven Mnuchin says 'very clear guidance' on the Paycheck Protection Program will be provided to businesses so the system isn't abused.
- Link to clip:
<http://video.foxbusiness.com/v/6151164887001/>

Key PPP & EIDL Takeaways & Considerations

Loan Programs

Key General & EIDL Takeaways & Considerations

- General Takeaways & Considerations
 - Applicants are eligible for loans under both programs
 - Main Street Lending Program eligibility
 - Interactions with other deferrals, credits and incentives
- Economic Injury Disaster Loans
 - \$2,000,000 maximum loan balance at SBA discretion
 - \$10K advance limit up to \$1k x 10 employees
 - Net worth and taxable income limitations
 - Detailed application process through SBA
 - No forgiveness aspect (other than potential \$10K advance)
 - 30 year amortization, 2.75% - 3.75% interest rate

Loan Programs

Key PPP Takeaways & Considerations

- Paycheck Protection Program Loans
 - \$10,000,000 maximum loan balance (formulaic computation)
 - Forgiveness of some/all of the debt is available
 - Payroll Cost Clarifications
 - \$100K + Non-Cash Benefits
 - SE Income of general active partners
 - Individual partners in partnerships may not submit separate PPP applications
 - Borrowers may use payroll from calendar 2019 or trailing 12 months
 - Differences between use of funds and funds eligible for forgiveness
 - Application process completed at SBA designated banks
 - 2 year amortization period, 1.0% interest rate
 - Interest accrual commences upon funding

Loan Programs

Key PPP Takeaways & Considerations (Self-Employed)

- Self-Employed Eligibility
 - Filed or will file 2019 Schedule C, *Profit or Loss from Business*
 - Operating as of February 15, 2020
 - Must plan to file Schedule C with 2020 tax return
 - If there are employees on payroll:
 - Form 941;
 - State quarterly wage unemployment tax reporting forms; and
 - Evidence of retirement and health insurance contributions
 - Owner compensation loan forgiveness limited to 8 weeks of 2019 profit
- Documentation / PPP Application requirements
 - 2019 Schedule C;
 - 2019 Form(s) 1099-MISC, invoice, bank statement or book of record;
 - 2020 invoice, bank statement or book of record
 - February 15, 2020 payroll statement or similar documentation (if applicable)

Loan Forgiveness

PPP Loan Forgiveness

General Rules

- SBA clarification of forgiveness expected via additional guidance
- Payroll costs include:
 - Compensation of employees (principal place of residence is the US)
 - Wages, Salaries, Commissions or similar compensation
 - Payment of vacation, parental, family, medical or sick leave, allowance for separation or dismissal
 - Payment for provision of employee benefits consisting of
 - Group Health Care Coverage including insurance premiums
 - Retirement
 - Payment of State and Local Taxes Assessed on Employees Compensation
- Per the SBA Interim Final Rule, not more than 25% of the loan forgiveness may be attributable to non-payroll costs.

PPP Loan Forgiveness

General Rules (cont'd)

- Only 25% can be used for the following payments over the eight–week period following the date of the loan:
 - Payments on interest on mortgage obligations incurred before February 15, 2020;
 - Rent payments on leases entered into prior to February 15, 2020; and/or
 - Utility payments under service agreements entered into prior to February 15, 2020
- Utilities include payments for electricity, gas, water, transportation, telephone or internet access

PPP Loan Forgiveness

Headcount Decrease

- Loan amount eligible for forgiveness may be reduced (but not increased) by the following 2 part formula:
 - Part I
 - (a) Average number of full-time equivalent (“FTE”) employees during the 8-week period beginning with the date of the origination on the loan
 - (b) Average number (at the borrower’s discretion) of FTE employees from
 - February 15, 2019 – June 30, 2019; or
 - January 1, 2020 – February 29, 2020
 - Part II
 - (c) Paycheck Protection Program loan used for eligible costs
- The formula is $(a) / (b) \times (c)$

PPP Loan Forgiveness

Salary Decrease

- Loan amount eligible for forgiveness may also be reduced by decreases in salary and wages of any employee if:
 - Decrease occurs during the 8-week period beginning with the date of the origination on the loan; and
 - The decrease is in excess of 25% of the of the total salary or wages of the employee during the most recent full quarter during which the employee was employed prior the commencement of the 8-week period
 - Employees who received annualized wages or salary in excess of \$100,000 are excluded

PPP Loan Forgiveness

Exemptions from Reductions

- Exemptions from forgiveness reductions are available if:
 - During the period from February 15, 2020 – April 26, 2020, there is a workforce or salary reduction that meets the criterion on the earlier slides, but:
 - Borrower restores FTE employees to pre-February 15, 2020 amounts by June 30, 2020; and/or
 - Borrower restores the reduced salaries or wages for employees to pre-February 15, 2020 amounts by June 30, 2020

PPP Loan Forgiveness

Documentation Requirements

- Documentation Requirements:
 - # of FTE employees on payroll and pay rates;
 - Payroll tax filings with the Internal Revenue Service;
 - State income, payroll, and unemployment filings;
 - Cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, covered lease obligations, and covered utility payments;
 - Independent Contractors & Sole Proprietors – See earlier slides
 - Certification from an authorized representative that:
 - The documentation presented is true and correct; and
 - The amount for which forgiveness is requested was used to retain employees, or make interest payments on mortgage obligations, rent obligations and/or utility payments in force prior to February 15, 2020
- Lenders have 60 days from receipt of documentation to render decision

PPP Loan Forgiveness

Open Questions

- The following questions still are unclear and need further guidance from the SBA:
 1. Are the costs for the 8-week period to be determined on a cash basis or an accrual basis?
 2. At least 75% of the loan proceeds shall be used for Payroll Costs. What happens if I spend less?
 3. Should full year bonuses and/or year end profit-sharing contributions be included in the forgiveness calculation?
 4. Does rent cover only costs for facilities or do equipment rentals count as rent for forgiveness purposes?
 5. How is full-time equivalent calculated?
 6. How are non-COVID-19 reductions in workforce and/or salary treated for purposes of the loan forgiveness reduction?
 7. Will the formula for salary reduction be pro-rata adjusted?
 8. Do the exceptions for headcount and/or salary reduction allow for a replacement of the terminated worker?

PPP Loan Forgiveness

Open Questions (cont'd)

- The following questions still are unclear and need further guidance from the SBA:
 9. What types of transportation costs qualify as utility costs?
 10. For employees re-hired by June 30th, is there a time period for which they need to be employed in order to count towards headcount/salary restoration?
 11. Will the expenses associated with the forgiven funds give rise to a tax deduction?
 12. Will the forgiven funds be tax-exempt for state tax purposes?

Best Practices

PPP Loan Program

Best Practices

- Additional SBA guidance on forgiveness is anticipated
- Apply now
 - Keep certification/eligibility requirements in mind
- Stay up to date
- Diligent tracking of expended funds
- Checklist



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COVID-19 Resource Center

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- **For additional questions:** Email Covid19@saxllp.com
- Visit **Sax's COVID-19 Resource Center** found on Saxllp.com to register and for on-going information and resources.

Upcoming Webinars

- *Friday, April 24 @ 12PM* - **Relief Opportunities Available for Healthcare Providers Impacted by COVID-19**
- *Thursday, April 30 @ 10AM* - **Preparing for Forgiveness – Updates on Loan Options & Forgiveness Strategies**

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