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“Are you talking about the new normal of an hour ago, or is there a new new normal right now?”
PAYCHECK PROTECTION PROGRAM

• As part of the CARES Act enacted at the end of March 2020 in response to the COVID-19 pandemic, the government created the Paycheck Protection Program (PPP).

• The PPP offers loans of up to $10 million, or 2.5x average monthly payroll, to help small businesses maintain cashflow, payroll, and employee headcount.

• The loan offers a fixed interest rate of 1% for a term of 2 years.

• If loan recipients maintain employee and wage levels, and use the loan only for approved expenses, the loan will largely be forgivable.
PPP LOAN PROGRAM
GENERAL ITEMS


• Loan Forgiveness Income is it federally taxable income? It is not federally taxable income.

• The payroll that is paid and is used in the forgiveness process – Can you use it for tax deductions? Yes – need more guidance.

• The forgiveness process is with the bank/lending institution. Banks may have additional steps/backup required for forgiveness.
APPROVED PPP LOAN USES

The SBA has limited the expenses for which PPP loan funds can be used and consequentially forgiven.

**NOTE:** Mortgage interest, other interest, rent, and utilities must all have been in contract before Feb. 15, 2020.
NEW SBA GUIDANCE

LOAN USAGE STIPULATIONS

• **At least 75%** of the PPP loan must go towards payroll costs in order to be fully forgiven.

• The remaining **25%** may be used towards other expenses detailed on the prior slide.
ELIGIBLE AND INELIGIBLE PAYROLL COSTS

Eligible Payroll Costs Include:

• Employee compensation, up to $100,000 per employee
• Payment for vacation, parental, family, medical, or sick leave
• Allowance for dismissal or separation
• Group health care benefits, including insurance premiums
• Any retirement benefits
• Statement of state or local tax assessed on employee compensation

Costs Not Eligible Include:

• Any compensation of an employee whose principal place of residence is outside of the United States
• Payments made to independent contractors (1099)
• The compensation of an individual employee in excess of an annual salary of $100,000, prorated as necessary
• Federal employment taxes imposed or withheld between February 15, 2020 – June 30, 2020
• Qualified sick and family leave wages for which a credit is allowed under the Families First Coronavirus Response Act
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**DOCUMENTS MOST LIKELY NEEDED FOR FORGIVENESS**

**EMPLOYMENT + WAGES DOCUMENTATION**

Documentation verifying the number of employees on payroll and their pay rates, including IRS payroll tax filings and state income, payroll, and unemployment filings.

**RECEIPTS + INVOICES**

Documentation verifying payments on mortgage interest, other interest payments, rent, and utilities. Utilities include electricity, gas, water, transportation, and telephone + internet access.

**OFFICIAL CERTIFICATION**

Certification from an organization representative that can verify that all documentation is true and in accordance with PPP guidelines.
EMPLOYEE RETENTION TAX CREDITS
No Double Dipping

• Recipients of the PPP loan or SBA Economic Injury Disaster Loan cannot claim employee retention tax credit established by the CARES Act.

• This credit is equal to 50% of qualified wages paid by the employer with respect to each employee. The amount of qualified wages with respect to any employee for all calendar quarters in 2020 cannot exceed $10,000.
  • This means there is a $5,000 total cap on the credit per employee for the 2020 tax year.

• Based on the number of employees and current cash needs, businesses should calculate whether claiming employee retention tax credits would be more advantageous than a PPP loan.
The US Department of the Treasury noted in the “Interim Final Rule” that the SBA will be issuing further guidance on how to calculate PPP loan forgiveness. The formulas in the following slides are based on information currently provided in the CARES Act but are subject to change as further guidance is made available.
PPP LOAN FORGIVENESS OVERVIEW

1. Full forgiveness is based on an employer maintaining both employee headcount and wages in the covered 8-week period.

   The covered 8-week period begins on the loan origination date.

2. If an employer has laid off or furloughed employees, or reduced salaries, after Feb. 15, 2020, they have until June 30, 2020 to rehire employees and restore salary levels.

3. Forgiveness will decline if headcount declines or if salaries decrease, as shown in the calculations in the following slide.

4. Loan recipients must prove that the loan was used only on approved costs.

   At least 75% of the total loan amount must be spent on payroll.

   The portion of the loan not spent on payroll costs must be used only for approved expenses (mortgage interest, other interest payments, rent, utilities), for which you must provide documentation.
LOAN FORGIVENESS CALCULATION

- **STEP 1** Calculated Total Allowable Costs.
- **STEP 2** Calculate Headcount Reduction.
- **STEP 3** Calculate Salary Reduction.
STEP 1

TOTAL ALLOWABLE COSTS CALCULATION

Maximum Forgiveness Amount

Total Allowable Costs Calculation: Principal forgiven in an amount equal to the following costs incurred during the eight weeks after the loan is originated:

75% - Expense
- Payroll costs – has to be at least 75% of the total
- W-2 pay, health insurance, retirement benefits, state payroll taxes

25% Expenses
- Mortgage interest
- Interest on debt (incurred prior to 2/15/2020)
- Rent/lease – Real and Personal Property, capital leases?
- Utilities – heat, power, water, internet, Transportation
STEP 2 and STEP 3 EXEMPTION
SAFE HARBOR STRATEGY

An exemption is granted for both the Reduction in FTEE and reduction in Salary and wages only if BOTH of the following apply:

1. If the total FTEE reduction between Feb 15, 2020 and April 26, 2020 is restored no later than June 30, 2020.

2. If the total salaries or wages reduction between Feb 15, 2020 and April 26, 2020 is restored no later than June 30, 2020.
SEASONAL

For seasonal businesses, the applicant may use average monthly payroll for the period between February 15, 2019, or March 1, 2019, and June 30, 2019.
Step 2 Headcount Reduction Calculation
REDUCTION BASED ON DECREASE IN NUMBER OF EMPLOYEES

Total Allowable Costs

Average Number of Full-Time Equivalent Employees (FTEEs) per month* for covered 8-week period

Average Number of FTEEs per month of either:
1. 02/15/2019 – 06/30/2019**
2. 01/01/2020 – 02/29/2020

* Average FTEE = average FTEE for each pay period falling within a month
**Seasonal Business must choose Option 1
STEP 3 SALARY REDUCTION CALCULATION

For each employee earning less than $100K...

The amount of loan forgiveness will be reduced by the amount of a reduction in total salary or wages of an employee during the covered period that is in excess of 25% of the total salary or wages of the employee during the most recent full quarter during which the employee was employed.

For example...

If (Q1 2020 payroll costs) x 75% > 8-week payroll cost...
You must reduce forgiveness by the dollar amount difference for each employee.
SCHEDULE C SOLE PROPRIETOR DEBT FORGIVENESS CALCULATION

2019 Schedule C Net Income

8 Weeks (PPP Loan Spending window)

52 Weeks – a year

Loan Forgiveness For Self-Employed Individuals will be calculated based on:
- payroll costs, including salary (a maximum of $15,385 per individual during the eight-week covered period) and covered benefits for employees (but not owners);
- the self-employed individual’s Owner Compensation Replacement, but only up to an amount limited to eight weeks’ worth (8/52) of the 2019 Schedule C net profit amount.
“Looks like you’re on top of the new regulations.”
To be eligible for forgiveness, the SBA has given businesses until June 30, 2020 to restore salary levels and rehire any employees that were let go between Feb. 15 - April 26. If cash levels are concerning, businesses may consider waiting to rehire or restore wages.

Based on the calculations in the prior slide, businesses should calculate if it is more advantageous to (a) restore wage levels and rehire employees to have more of the PPP loan forgiven or (b) make layoffs and wage cuts permanent and have to pay off the loan within 2 years.
TRACKING STRATEGIES

The following slides will outline our recommendations for tracking spending in order to maximize loan forgiveness.
How will you respond to COVID-19?

Denial

Fake news. It's just a cold

Panic

Plan

How to prepare your family and business

Alex, I'll take planning for $500.
WHY IS TRACKING IMPORTANT?

For Loans in General
Businesses that received non-governmental loans before the crisis may run the risk of being unable to make timely payments during a recession. Tracking spending and maintaining an up-to-date cashflow forecast will provide visibility to rectify this situation.

For Economic Injury Disaster Loans
Businesses that received EIDLs have more spending flexibility than those that received only PPP loans. However, the business will need to spend the accompanying EIDL grant on approved expenses to avoid having it become a loan. In both cases, accurate tracking is key.
BUILD A TRACKING TOOL

As soon as loan funds are disbursed, or even before, create an Excel spreadsheet that outlines:

- List of employees from 2019 and dates employed
- 2019 wage levels for each employee
- Full list of current employees
- Wage levels for each employee

Back up all of this data with statements from your payroll system.
Keep these records in one place.
TRACK OTHER APPROVED EXPENSES

• First, multiply loan amount received by 0.25 for the portion eligible to cover mortgage interest, interest payments, rent, and utilities.

• In a second spreadsheet, create a schedule of when these charges occur.

• Document each payment and save the invoice/receipt attached to that payment. Label the payments based on their approved categories.

• Keep all invoices and records of payment in one digital file.
ADD SUPPORTING DOCUMENTATION

• In addition to keeping a well-organized spreadsheet of expenses and payroll costs, acquire additional documentation to validate the expenses. These can include:

  • IRS payroll tax filings
  • Mortgage/rent agreements
  • Utility accounts in the business’ name
  • Previous tax returns – Schedule C
BUILD A 13-WEEK CASHFLOW FORECAST

An operationally focused 13-week cashflow forecast is essential to understanding the cash needs of your business.

1 UPDATE WEEKLY

Though the future of the economy is difficult to predict, you can better know what to expect by updating your cashflow each week with new data.

2 DETERMINE CASH NEEDS

If your business has taken a hit as a result of the recession, your cashflow can determine your stability and at which point a need for cash may arise.

3 LET THE FORECAST DECIDE

A well-kept, updated cashflow forecast can help you determine if it is more advantageous to rehire workers and restore pay levels, or to use the PPP loan to cover other operational costs.
"Regarding our cash-flow problem, it's agreed then... Sims enters the bank at 10 a.m.; Riggs will follow, and Yates drives the getaway car..."
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