



*Adelson & Company PC*

CERTIFIED PUBLIC ACCOUNTANTS

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## **PAYCHECK PROTECTION PROGRAM (PPP)**

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**Background:**

Loans are calculated based on 2.5 months of 2019 average payroll & related costs

**Covered period**

Starts the day the PPP loan proceeds are deposited in the bank

Ends after **24 weeks** (or 8 weeks)

**Alternative Covered Period** (optional – only applies to payroll costs)

24 week period beginning on the 1<sup>st</sup> day of the 1<sup>st</sup> pay period following the date of receipt

**Eligible expenses**

*Payroll costs - (At least 60% of forgiveness must be used for these)*

- Cash Compensation –
  - Salaries, wages, commissions, vacation, family/medical/sick leave
  - Limited to \$100k per employee on an annualized basis - \$46,154 for a 24 week period
- State unemployment taxes
- Mass PFML tax
- Employer health
- Employer pension (may want to match now vs end of year)

*Other eligible expenses – (Up to 40% of forgiveness may be used for these)*

- Utilities (service in place prior to 2/15/20)
  - Gas
  - Electric
  - Telephone
  - Water
  - Internet
- Rent (Leases in effect prior to 2/15/20)
- Mortgage interest (loans incurred prior to 2/15/20)

**Possible reductions to forgiveness**

If you received an EIDL Advance (up to \$10k), forgiveness will be reduced by that amount

Annual salary or hourly wages of any employee is reduced by more than 25%.

Average FTEs during the covered period are less than the average FTEs for the base period

**Safe harbors**

- Restore wages/FTEs to 2/15/20 levels by the date of the forgiveness application or 12/31/20
- Unable to rehire employees (offer made, employee rejects, DUA notified within 30 days)
- Unable to replace employees with similarly qualified employees
- Unable to return to the same level of business activity as it was operating at before 2/15/20 due to compliance requirements from HHS, CDC, or OSHA related to COVID-19

## Forgiveness process

Use either Form 3508 or Form 3508-EZ

3508-EZ may be used if one of the following three criteria is met:

1. Self-employed with no employees
2. Did not reduce wages for any employees by more than 25% during the covered period **and** did not reduce FTEs during the covered period – ignore reductions from the inability to rehire, inability to hire similarly qualified employees, or an employee's refusal of an offer
3. Did not reduce wages for any employees by more than 25% during the covered period and was unable to operate at the same level of business activity as before 2/15/20 due to compliance with requirements from HHS, CDC, or OSHA related to safety rules for COVID-19

Forgiveness must be applied for within 10 months of the **end** of the covered period

You may apply for forgiveness before the end of the covered period if you have already used all of the proceeds for allowable expenses.

### Apply for forgiveness now or wait?

No reason to apply right away –

Benefit to waiting?

- The process may be simplified (less documentation to submit)
- The \$100k annualized cap on payroll per employee would be prorated based on the date of application rather than the entire length of the covered period
- In the case of 8 vs 24 week CP – provided more time to spend the funds

### Timeline after submitting the application

The lender has 60 days to review and submit a decision to the SBA

Then the SBA has 90 days to make a final determination on forgiveness

Any EIDL advance will be deducted from forgiveness at this point

If any amount is not forgiven, you will be notified by the lender of the amount and date of the first payment date. The terms will be a 1% loan payable over either 2 or 5 years.

### How do I account for the PPP loans?

Liability until the debt is forgiven (legally released by the bank)

Accounting standard setters (FASB) have also discussed the option of treating the PPP loan as an in substance conditional grant, with the grant recorded as the condition is substantially met.

After forgiveness – grant income (and/or loan in the case partial forgiveness)

Interest accrues from the beginning of the covered period

### PPP loans and federal/state funded nonprofits

Guidance is not clear, but the PPP loans upon forgiveness could potentially generate surplus in programs which may need to be returned.

### Resources:

*SBA Q&A on PPP loans*

<https://www.sba.gov/sites/default/files/2020-08/PPP%20Loan%20Forgiveness%20FAQs%208-4-20-508.pdf>

PPP related issues in proposed bills		
	<b>Democrats</b>	<b>Republicans</b>
	<b>HEROES 2 Act</b>	<b>Bill</b>
<b><u>Simplified forgiveness process</u></b>		
Submit a <b>signed statement</b> indicating that the requirements for forgiveness were met. <b>Documentation</b> must be <b>kept available</b> , but is not required to be submitted.	Loans under \$50k	Loans under \$150k
<b>Simplified application</b> to be submitted. Documentation must be kept available, but not required to be submitted.	Between \$50k and \$150k	Between \$150k and \$2M
No changes to the current process	Loans over \$150k	Loans over \$2 million
<b><u>2<sup>nd</sup> round of PPP Loans</u></b>		
<b>Reduction in revenue</b> from Q1 2020 vs Q1 2019 or Q2 2020 vs Q2 2019	25% reduction	25% reduction
<b>Employee limit</b>	200 employees	300 employees

## EMPLOYEE RETENTION CREDIT

### Eligibility

- **Not eligible if you received a PPP Loan.**
- Fully or partially suspended operations during any calendar quarter in 2020 due to orders from an appropriate governmental authority due to COVID-19; or
- Experience a significant decline in gross receipts during the calendar quarter.
  - This is based on the first calendar quarter in 2020 in which gross receipts are less than 50% of its gross receipts from the same calendar quarter in 2019
  - After that, it ends with the first calendar quarter where gross receipts are greater than 80% of gross receipts from the same 2019 quarter, or on 1/1/2021

### Credit

- The ERC is a fully refundable tax credit for employers equal to 50% of qualified wages
- The credit is allowed against the employer's share of social security taxes
- Applies to qualified wages paid after 3/12/2020 and before 1/1/2021
- Maximum amount of qualified wages per employee is \$10,000 for all quarters, so the maximum credit is \$5,000 per employee in total

### Qualified Wages

- Wages and compensation paid after 3/12/2020 and before 1/1/2021
- Includes qualified health plan expenses that are properly allocated to wages
- Depends on whether you averaged more than 100 FTEs in 2019 or not
  - If they had 100 or less FTEs in 2019
    - Qualified wages to **any employee** are included during the period of economic hardship
  - If they had more than 100 FTEs in 2019
    - Qualified wages only include wages paid to an employee for **time that the employee is not providing services**
    - Wages paid to an employee pursuant to a pre-existing vacation, sick, or other personal leave policy are not qualified wages (if over 100 FTEs)
- An FTE for this purpose is an employee who had an average of at least 30 hours of service per week or 130 hours of service in the month
- Then you add up the total FTEs in each calendar month and divide by 12
- You can receive both an ERC and a tax credit for qualified leave wages under the FFCRA, but not for the same wages

### Claiming the Credit

- Claimed on the quarterly 941
- It's calculated using Worksheet 1 from the new 941 instructions
- Qualified wages for the ERC go on Line 21 (Part 3) of the new 941
- The nonrefundable portion of the credit goes on Line 11c (Part 1)
- The refundable portion of the credit goes on Line 13d (Part 1)
- Also, an advance of the credit can be claimed by filing Form 7200

Form 941:

<https://www.irs.gov/pub/irs-pdf/f941.pdf>

Form 941 Instructions:

<https://www.irs.gov/pub/irs-pdf/i941.pdf>

Form 7200:

<https://www.irs.gov/forms-pubs/about-form-7200>

ERC FAQ: <https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act>