

SKR+CO WEBINAR SERIES

APR 07 | Coronavirus Aid, Relief and Economic Security Act




Welcome + Webinar Tips



Marjorie Noleen

Marketing + Client
Relations Director

Webinar Facilitator

- Attendees are in listen-only mode.
- CPE Credit
- Handouts are available.
- Questions:
 - Post using the question function.
 - We will pause to answer questions periodically.
 - You may also email questions to communications@skrco.com
 - There will be time for questions at the end as well.
 - Question Helpers 
- Webinar is being recorded.

Agenda



SKR+CO and Coronavirus Updates



The CARES Act, Individual + Self-Employed



The CARES Act, Business Provisions



Paycheck Protection Program (PPP) Updates

Stockman Kast Ryan + Company



- Business + Individual Tax
- Audit + Assurance
- Bookkeeping + QuickBooks
- Interim CFO Services
- Estate + Trust Planning
- Litigation Support
- Business Advising
- Business Valuations

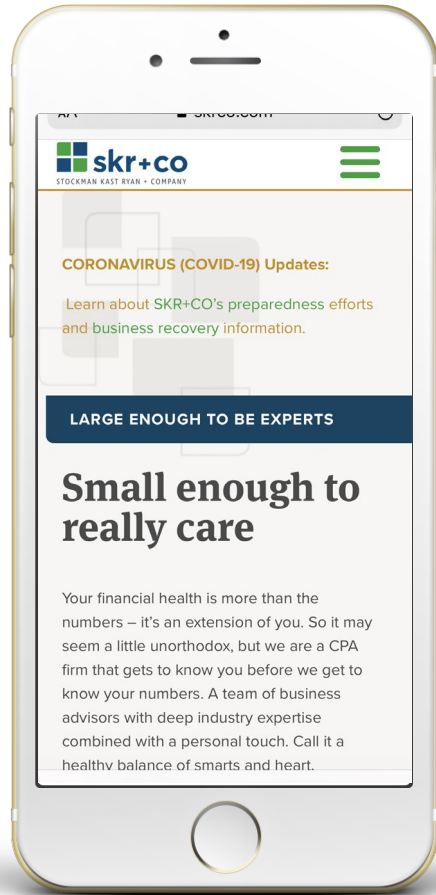
**A TOP ACCOUNTING FIRM,
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Accounting Today
2017, 2018, 2019, 2020

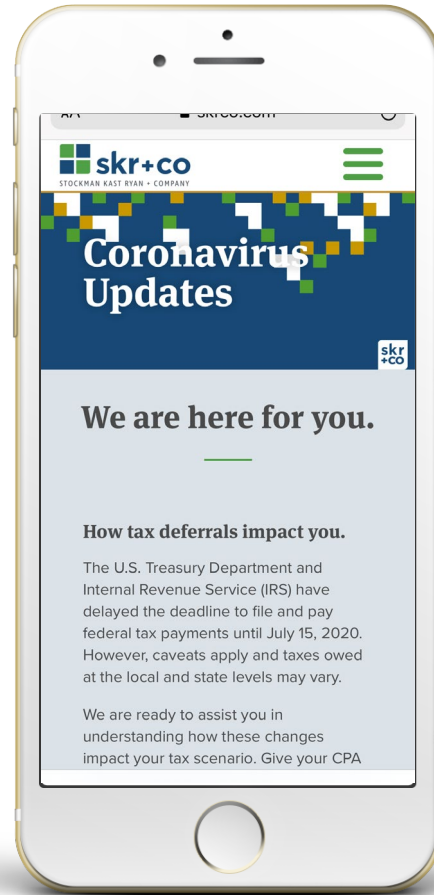
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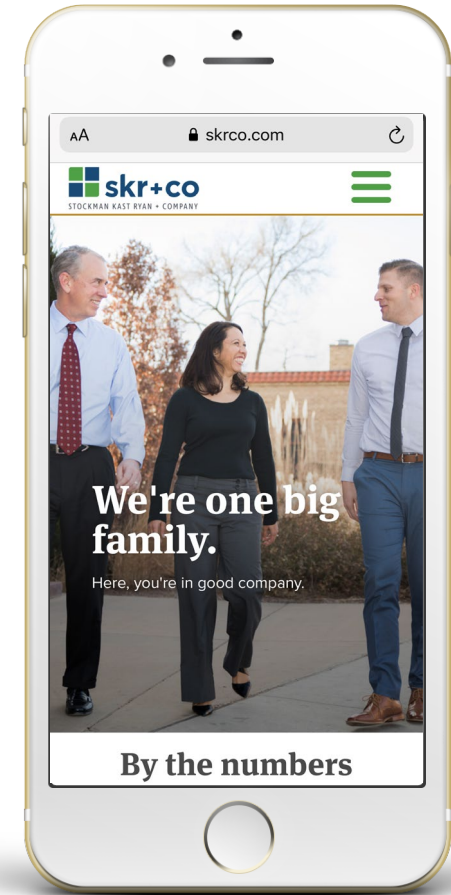
SKR+CO and Coronavirus Updates



Communication Channels



Coronavirus Updates



SKR+CO Operations

Today's Speakers



**Jordan
Empey**

Tax
Partner



**Buddy
Newton**

Senior Tax
Manager



**Doreen
Merz**

Senior Tax
Manager

A group of people in a meeting, with hands pointing at documents on a table. The image is overlaid with a blue gradient.

Individual Provisions

Presented by: Doreen Merz, CPA

Recovery Rebates for Individuals

- Eligible individuals will receive a refundable tax credit against their 2020 taxable income equal to \$1,200 (\$2,400 for joint filers) plus \$500 per qualifying child.
 - The credit begins to phase out if the individual's adjusted gross income (AGI) exceeds \$75,000 (\$150,000 for joint filers and \$112,500 for head of household filers)
- The credit will be **automatically advanced** to eligible individuals based on the individual's most recent income tax filing (2018 or 2019 tax filings)
- Individuals who have not filed a tax return in 2018 or 2019 may still receive an automatic advance based on their social security benefit statements (Form SSA-1099) or social security equivalent benefit statement (Form RRB-1099)

Rebates Over or Under Paid

- If income reported on the 2020 tax return is higher than the threshold, the credit will not need to be paid back.
- If your rebate is overpaid the excess is not taxable income in 2020
- If the credit was underpaid based on 2018 or 2019 income the additional credit will be given on the filing of the 2020 income tax return.
- Qualifying children include dependents who are not over age 17.
- Adult dependents do not qualify for the rebate.

Payment Methods



TIP: Watch for look-alike sites or false claims requesting personal information. Never give out personal or financial information on a social media platform or in unsolicited emails, texts or calls.

- A web-based portal is being developed by the Treasury for individuals to provide their banking information to the IRS online.
- The IRS will post all key information on [IRS.gov/coronavirus](https://www.irs.gov/coronavirus) as soon as it becomes available.
- We will share this information on our Coronavirus updates page as well.

Rebates Timing

- Estimates are that week of April 13th about 50 - 60 million payments will begin direct deposit.
- Lower income taxpayers receive check payments first. It could take up to 20 weeks to issue all the checks.
 - Taxpayers with income up to \$10,000: April 24
 - Taxpayers with income up to \$20,000: May 1
 - Taxpayers with income up to \$40,000: May 15
- The rest of the checks will be issued by gradually increasing income increments each week. Households earning \$198,000 who file jointly will get their reduced checks on Sept. 4. The last group of checks will be sent on Sept. 11 to those who didn't have tax information on file and had to apply for checks.

Recovery Rebates, find your information

- Finding your Adjusted Gross income (2018 Form 1040) line 7

Form 1040 (2018) Page 2

		1	Wages, salaries, tips, etc. Attach Form(s) W-2	1		
Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	2a		Tax-exempt interest	2a		
	3a		Qualified dividends	3a		
	4a		IRAs, pensions, and annuities	4a		
	5a		Social security benefits	5a		
	6		Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22	6		
7		Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7			

Standard Deduction for...

Recovery Rebates, cont.

- Finding your Adjusted Gross Income (2019 Form 1040)- line 8b

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2019** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)

Check only one box.
If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial | Last name | Your social security number

• Head of household, \$18,350

• If you checked any box under

7b	Adjusted gross income	7b	
8a	Adjustments to income from Schedule 1, line 22	8a	
8b	Subtract line 8a from line 7b. This is your adjusted gross income	8b	

Temporary Waiver of Required Minimum Distribution Rules for Certain Retirement Plans Accounts

- Generally, RMDs must begin at age 72 for individuals born on or after July 1, 1949 or at age 70 ½ for individuals born before July 1, 1949.
- Waives the required minimum distribution (RMD) rules for certain defined contribution plans and IRAs for calendar year 2020.
- Provides relief to individuals who would otherwise be required to withdraw funds from such retirement accounts during the economic slowdown due to COVID-19.

Special Rules for Use of Retirement Funds

- Waives the 10% early withdrawal penalty for distributions up to \$100,000 from tax-qualified retirement plan accounts for coronavirus-related purposes during 2020
- Taxable amounts from such distributions can be included in income ratably over 3 years
- Taxpayers may recontribute the funds to an eligible retirement plan within 3 years without regard to that year's cap on contributions
- A coronavirus-related distribution is one made to an individual:
 - Who is diagnosed with COVID-19;
 - Whose spouse or dependent is diagnosed with COVID-19; or
 - Who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors as determined by the Treasury Secretary
- Also provides flexibility for participant plan loans for coronavirus-related relief
- Some states have their own early withdrawal penalty so remember to check your applicable state

Plan Loans

- Plan Loans may increase the amount of a loan from a plan up to \$100,000 or 100% of an employee's nonforfeitable accrued benefit under the plan.
- Due dates for any outstanding plan loans payment between March 27, 2020 and December 31, 2020 may be delayed for one year.
- Interest will still accrue during the delay of payments.



Plan Administrators

- Plan administrators may rely on the employee certification that the requirements are met.
- The coronavirus- related distributions from employer qualified retirement plans are not subject to the required income tax withholding.
- These provisions are optional. If a company's plan decides to operate under these provision they have until the last day of the plan year to amend their plans

Allowance of Partial Above the Line Deduction for Charitable Contributions

- Eligible individuals may take a qualified charitable contribution deduction of up to \$300 against their adjusted gross income in 2020. An eligible individual is any individual taxpayer who does not elect to itemize their deductions.
- A qualified charitable contribution is a charitable contribution
 - (i) made in cash,
 - (ii) for which a charitable contribution deduction is otherwise allowed, and
 - (iii) which is made to certain publicly supported charities.

Modification of Limitations on Charitable Contributions During 2020

- The CARES Act temporarily suspends the AGI limitation for qualifying cash contributions made in 2020.
- Any excess is carried forward as a charitable contribution in each of the succeeding five years.
- Cannot be made to a donor advised fund.
- Donations through partnership and S Corporation – limits are computed separately for each partner or shareholder.



Self-Employed Provisions

Presented by: Doreen Merz, CPA

Provisions Applying to Self-Employed

- Emergency Family and Medical Leave Expansion Act (EFMLEA).
- Self-employed individuals will be eligible for a tax credit of up to 12 weeks of Family Leave Pay at two-thirds their normal rate. (Up to 50 days).
 - Days x lesser of (1) \$200 or (2) 67% of average daily self-employment income for the taxable year.
 - Average daily self-employment income is an amount equal to the net earnings from self-employment for the taxable year divided by 260.
 - A taxpayer's net earnings from self-employment are based on the gross income that he or she derives from the taxpayer's trade or business minus ordinary and necessary trade or business expenses.
- Qualification the SE person must be required to comply with self-isolation or to care for a child due to school closure in connection with Coronavirus outbreak.

Provisions Applying to Self-Employed

- Emergency Paid Sick Leave Act (EPSLA).
 - Number of days during the taxable year the individual cannot perform services multiplied by the lesser of \$200 or 67% of the average daily self-employment income for the taxable year.
 - Maximum Days of 10 occurring between April 1, 2020 and December 31, 2020.
- Average daily self-employment income is the net earnings for the taxable year divided by 260.
- Net earnings are gross income less ordinary and necessary trade or business expenses.
- Funded through a current reduction in quarterly estimated income tax payments.

Provisions for Self-Employed Individuals

- Permits employers to defer payment of the employer portion of Social Security tax (6.2%) that would otherwise be due and payable through December 31, 2020.
- Employers would be required to pay 50% of the deferred amount on or before December 31, 2021, with any remaining amount paid on or before December 31, 2022.
- During the period of deferral, the employer will be treated as having made timely deposits of applicable taxes if payments are made when due under the schedule noted above.
- Self-employed individuals would be eligible to defer 50% of self-employment Social Security tax payments.
- Taxpayers who have small business loan debt forgiven under Sec. 1106 of this Act are ineligible for this deferral.

Unemployment Assistance Example

Bob's Books is a Schedule C.

- Bob is required to close the bookshop for 15 days.
- Due to his child's school closing.
- Net income for 2020 is 180,000.
- Average Daily Self-employment income.

\$180,000/260 days	692
67% of ADSE	464
Lesser of \$200 or 67% 15 days	200
Qualified Family Leave Equivalent	3,000
FICA	17,075
Medicare	5,220
Self-Employment Tax	22,295
Less Credit – Family Leave	(3,000)
Net SE Tax	19,295
Deferral of Medicare Tax	(2,610)
Net SE tax estimate due	16,685

Unemployment Assistance Example

Bob's Books is a Schedule C.

- Bob is required to close the bookshop for 15 days.
- Due to his child's school closing.
- Net income for 2020 is 56,000.
- Average Daily Self-employment income.

\$56,000/260 days	215
67% of ADSE	144
Lesser of \$200 or 67% 15 days	200
Qualified Family Leave Equivalent	2,165
FICA	6,944
Medicare	1,624
Self-Employment Tax	8,568
Less Credit – Family Leave	(2,165)
Net SE Tax	6,403
Deferral of Medicare Tax	(812)
Net SE tax estimate due	5,591

Unemployment Assistance

- **Pandemic Unemployment Assistance (PUA)** - Expanded unemployment benefits cover self-employed and independent contractors.
 - Provides up to 39 weeks of benefits.
 - Available for weeks of unemployment from January 27, 2020 through December 31, 2020.
- **Federal Pandemic Unemployment Compensation (FPUC)** - An additional \$600/week in unemployment insurance provided through July 31, 2020.
 - Individual must self-certify COVID-19 impact
 - Colorado is currently waiting on guidance to begin administering benefits.
 - <https://www.colorado.gov/pacific/cdle/unemployment>

SBA Loans

- Access to **Economic Injury Disaster Loans (EIDL)** including the \$10,000 initial advance after application.
- **Payroll Protection Program (Available April 10)** – Self-employed and independent contractors are eligible to apply. Self-employed individuals, independent contractors or sole proprietors must submit necessary documentation to establish their eligibility, including payroll tax filings, 1099s and details of income and expenses from the sole proprietorship.

Further guidance pending.



Business Tax Provisions

Buddy Newton, CPA

Employee Retention Credit

- A **refundable** payroll tax credit for employers impacted by COVID-19 who **retain** their employees receive a credit toward employer 6.2% Social Security payroll taxes.
- Max credit is **\$5,000/employee** based on 50% of wages (\$10,000 cap)
 - Time period March 12, 2020 – December 31, 2020
 - Qualifying Businesses and tax-exempt organizations:
 - Operations were fully or partially suspended due COVID-19 related shutdown order; **Or**, orders from governmental authority limiting commerce, travel, or group meetings
 - Gross receipts for the quarter are less than 50% of gross receipts for same quarter in the prior year (until reaching 80% again)

Employer Retention Credit

- Qualifying wages include compensation and healthcare costs
- Differences based on number of full-time employees
 - **> 100** – receive credit for wages paid to employees who are not working
 - **< 100** – receive credit for wages paid to all employees
- Full time employees are classified based on 30 hours per service week or 130 hours month
- Sick pay or wages paid through Families First Coronavirus Relief Act (FFRCA) are excluded for this credit,
- Funds from The CARES Act deemed forgivable and used to pay wages would be ineligible for the credit (i.e., Paycheck Protection Program)

Employer Retention Credit

Roxanne's Salon and Day Spa

- Roxanne has a total of 15 employees, including herself
- Her team works 40 hours a week and receive W-2's
- Each employee makes \$5k per quarter.
- The salon is not allowed to re-open until May 1.
- Roxanne elects not to pay anyone until they come back to work.
- Even after re-opening, sales are down considerably because of the reaction to COVID-19.
 - Gross receipts are under 50% compared to 2019 for the remainder of the year.

Does Roxanne qualify?

YES

How much is the payroll tax credit?

\$75,000

What happens if Roxanne qualifies for PPP Loan later?

Recapture of credit at a later date

What if during 4th quarter gross receipts equaled prior year?

No change for this scenario

Delayed Payment of Employer Payroll Taxes

- Allows employers to **defer payment** of employer portion of Social Security payroll tax (6.2%)
- Covers period from enactment of bill (3/27/2020) through 12/31/2020.
- 50% of deferred amount due before **12/31/2021** and remaining 50% due before **12/31/2022**.
- Self-employed individual can delay up to 50% of his or her self-employment tax
 - 25% due by 12/31/2021 and remaining 25% due by 12/31/2022.
- Any business or self-employed individual who takes out small business loan debt that is forgiven would be ineligible for this deferral.

Takeaways from Employer Payroll Tax Credits

- **Be careful because there are several different credits and they each have their own criteria!**
 - Credit under Emergency Paid Sick Leave Act
 - Credit under Emergency Family and Medical Leave Act
 - Employer Retention Credit
 - Delayed Payment of Employer Payroll Taxes
- **Understand the cash flow benefits of payroll tax credit versus deferral of payments**
 - Ultimately qualifying for a loan to cover costs and having costs forgiven may still be the most beneficial (e.g., Paycheck Protection Program).
- **Upside is immediate cash flow assistance to small businesses, but unsure how this all plays out with 2020 filings for income taxes and payroll taxes.**



Qualified Improvement Property (QIP)

What is it?

- Any improvement made to the interior portion of a nonresidential building anytime after the building was placed in service.
- This specifically excludes any improvements to enlarge the building, improvements to elevators, escalators and an internal structural framework.



Qualified Improvement Property (QIP)

- Technical correction from tax reform, enacted 1/1/18, clarified:
 - **Qualified improvement property (QIP) placed in service after 12/31/17 is 15-year property eligible for bonus depreciation**
 - QIP placed in service during 2018 and 2019 is now eligible for bonus, which previously was subject to 39-year life and no bonus depreciation
- **Consider amending 2018 returns to re-classify these assets and claim bonus depreciation.**
 - Could result in net operating loss for taxpayer that can now be carried back 5 years when overall tax rates were higher.
- Taxpayer may file to change the accounting method used with their 2019 return to claim additional depreciation deductions in current year

Qualified Improvement Property (QIP)

Cost Segregation Studies

- Recommend for taxpayers generally having construction performed on a non-residential building with costs in excess of **\$500k**
- These studies can break-out property into class lives of 7-year, 15-year and 39-year class lives
 - Further benefit of knowing costs within building systems such as HVAC, Plumbing, Electrical, Fire, Security, Elevators, Escalators, etc. with partial asset disposition
- **Interplay with businesses electing real property trade or business due to 163(j) limitations and being subject to alternative depreciation system (ADS)**
 - **39-year assets go to 40-year life**
 - **15-year assets go to 20-year life (not eligible for bonus on newly acquired property)**

Net Operating Losses Timeline

Pre TCJA

- 2 Year Carryback and 20 Year Carryforward
- No limitation on offsetting taxable income, but only offset 90% of AMTI

Post TCJA

- No carrybacks allowed, must carryforward NOL's after December 31, 2017 indefinitely
- NOL's post December 31, 2017 limited to offsetting only 80% of taxable income prior to NOL deduction

CARES Act

- 5 Year carryback allowed for NOL's post December 31, 2017 and prior to January 1, 2021
- After 12/31/2020, any NOL deduction is limited to 80% of taxable income after deduction of pre-2018 NOL's, and before Qualified Business Income (QBI) deductions

Net Operating Losses

- **AMT Considerations in years prior to 2018**
 - Only offset 90% AMTI
- **Consider filing Form 1045/1139, Application for Tentative Refund for 2019 and 2020 NOL's**
 - Potentially faster, 90 days from date application filed or 90 days from end of month return was originally due (including extensions)
- **Technical correction for fiscal filers**
 - Fiscal filers beginning before 12/31/2017 and ending after 1/1/2018, have 120 days from enactment to request tentative refund
 - Only allowed to 2-year carryback
- **Other items to consider before carrying back losses**
 - Tax rates, section 179 deduction, charitable contributions, DPAD, statute of limitations for closed years
- **Colorado does not currently allow a carryback provision**

Excess Business Loss Limitations

- TCJA limited business losses for individuals and non-corporate taxpayers to \$250,000 for single filers and \$500,000 for joint filers (2018 thresholds)
- **Provides relief until 2021, Farm losses permanent (through 2026 for TCJA)**
- **Business losses fully deductible for years 2018, 2019, and 2020**
- If returns were filed for 2018 and 2019, they should be amended/superseded to not limit losses
- If the result is an NOL then prior return(s) should be amended to claim a refund
- Clarification on issues around items for business loss limitations starting in 2021
 - Will not be able to claim losses against wages and other income earned as an employee
 - Net operating losses and QBI deductions under 199A will not be considered for loss limitation calculation
 - Capital gains can continue to help offset limitation, but only after being netted with capital losses

Scenario – Single Filer

	2018	2019	2020	2021
Wages	\$100,000	\$100,000	\$100,000	\$100,000**
Investment Income	\$300,000	\$300,000	\$300,000	\$300,000
Business Income	(\$400,000)	(\$400,000)	(\$600,000)	(\$400,000)
461(l) loss limitation	\$250,000	\$0	\$0	\$250,000
Calc	\$100,000- \$400,000+ \$250,000=	N/A	N/A	\$400,000+ \$250,000=
NOL Carryover/ Carryback	\$50,000*	\$0	\$200,000	\$150,000
Net Taxable Income	\$50,000	\$0	\$0	\$150,000

- \$100,000 wages from business activity
- ***Actively participates, no passive activity loss rules, at-risk limitations or basis limitations***
- The 2018 unallowed loss due to excess business loss limitation should amend to claim a refund *
- Loss in 2020 can be carried back or carried forward, but remember change in tax rates
- **Notice in 2021 the unallowed loss is larger now because wages can no longer be claimed as business income to offset loss ****

Business Interest Limitation 163 (j)

- **Who does this potentially apply to?**
 - Average annual gross receipts greater than \$26 million for past 3 years
 - Own an interest in another business entity with a current, or prior year carryover of business interest expense
 - Business entity that is a tax shelter and has business interest expense
- **Additional business interest deduction of 20% for 2019 and 2020**
 - **Partnerships only have increased rate for 2020 tax year**
- If 2019 return has already been filed, return could be superseded prior to new filing date of 7/15/2020 or could file an amended return to claim refund
- **Have option for 2020 tax year to utilize 2019 adjusted taxable income due to potential drop in income from 2020**
- If the entity was new in 2019, adjusted taxable income for 2019 can be annualized based on number of months

Business Interest Limitation 50% vs. 30%

S-Corp 2019 Filing	30% Limitation	50% Limitation	30% Limitation Post 1/1/2022
Taxable Income	\$200,000	\$200,000	\$200,000
Additions:			
Business Interest Expense	\$150,000	\$150,000	\$150,000
Depreciation/Amortization	\$50,000	\$50,000	\$0
Contributions	\$1,500	\$1,500	\$1,500
Adjusted Taxable Income (ATI)	\$401,500	\$401,500	\$351,500
30%/50% Limitation	\$120,450	\$200,750	\$105,450
Allowable interest expense	\$120,450	\$150,000	\$105,450
Excess business interest expense	\$29,550	\$0	\$44,550

- S-Corporation with two owners 50/50
- *Adjusted Taxable Income equals 30% of ATI, floor plan financing interest and any business interest income*
- Starting 1/1/2022 there will be no addback for depreciation and amortization
- Taxpayers would amend the 2019 filing or supersede the filing to avoid having excess business interest expense trapped at entity level and each owner would receive an additional deduction of \$14,775

Business Interest Limitation 50% vs. 30%

Partnership 2020 Filing	2019 30% Limitation	2020 50% Limitation	2020 50% Limitation w/2019 ATI
Taxable Income	\$200,000	\$50,000	
Additions:			
Business Interest Expense	\$150,000	\$150,000	
Depreciation/Amortization	\$50,000	\$50,000	
Contributions	\$1,500	\$1,500	
Adjusted Taxable Income (ATI)	\$401,500	\$251,500	\$401,500
30%/50% Limitation	\$120,450	\$125,750	\$200,750
Allowable interest expense	\$120,450	\$125,750	\$150,000
Excess business interest expense	\$29,550	\$24,250	\$0

- Partnership with two owners 50/50
- **Increase from 30% to 50% for limitation only applies to 2020 for partnerships**
- **If limitation occurred in 2019, each partner could deduct 50% of the amount disallowed not subject to 2020 163(j) limitations, remaining 50% subject to excess taxable income to free up deduction**
- Election to deduct 50% excess business interest expense made at individual level
- Unsure how election will be made to use 2019 ATI at this point
- Excess taxable income equals \$50,750, which would free up all the excess business interest expense carried over from 2019

A group of people in a meeting, with hands pointing at documents on a table. The image is overlaid with a blue gradient.

Paycheck Protection Program (PPP) Update

Jordan Empey, CPA

Paycheck Protection Program (PPP)

- Signed into law March 27, 2020 as part of **The CARES Act**.
- The government's goal is to keep as many people employed as possible during this economic interruption.
- This loan will apply to almost any business that has payroll and therefore is vitally important for all business to pay attention to.
- Loan program also applies to sole proprietors, independent contractors and eligible self-employed individuals (defined in Families First Act).
 - **Application open April 10, 2020.**

Paycheck Protection Program (PPP)

- With \$349 billion dollars allocated to this program, that only allows for 350,000 x \$1M loans.
- Potential for the system to be inundated with loan requests.
 - We are seeing this happen, with Wells Fargo already announcing they are closing applications.
- Key is to get started on documentation early and work with someone that has navigated SBA loans before.

Paycheck Protection Program (PPP)

Top issues we are seeing so far:

- What is the methodology for the maximum loan:
 - Gross wages or net wages after federal income tax withholding and payroll taxes
 - Our current thought is that this applies to the amount forgiven during the eight week period
 - \$100K cap per employee, wages or other includable costs – interim guidance seems to support costs in addition
 - Use 1 year period before loan or calendar year 2019
 - Include independent contractors in payroll costs – interim guidance on Thursday says no as they can apply for themselves

*“Seriously. We’re the country behind wonderful inventions like the lunar module, the personal computer, and asbestos, and you’re telling me some egghead at the SBA couldn’t configure eight rows on a spreadsheet so that **EVERYONE** can understand how much can be borrowed?”*

- Tony Nitti

SBA PPP Loan Overview

- No personal guarantees required.
- No collateral required.
- Loans will be non-recourse.
- No SBA guarantee fees will be charged.
- Interest rate on the loan will be 4%~~1%~~ and two year term.
- No prepayment penalty.
- April 10 independent contractors and self-employed can start applying.

SBA PPP Eligibility

Borrowers will be required to certify:

- The uncertain economic conditions make the loan necessary to ***support*** ongoing operations.
- The proceeds will be used for the intended purposes.
- The recipient **does not have an application** and has not received another loan for the same purpose or duplicative amounts.

SBA PPP Loan Amount

How much

The maximum loan amount will be determined by calculating an average monthly payroll cost over the trailing twelve months and multiplying that amount by 2.5X up to a \$10,000,000 maximum.

- For purposes of this calculation, eligible payroll costs will not include compensation in excess of \$100,000 annualized salary per employee.

SBA PPP Loan Forgiveness

Borrowers will be eligible for forgiveness of all or a portion of the SBA PPP loan under the following guidelines:

- Forgiveness will be calculated by the sum of eligible expenses incurred over an 8-week period following the origination of the loan.
- Eligible expenses include – payroll related costs (has to be 75%) interest on mortgage payments, rent, utilities.
- Forgiveness is a tax-free event.

SBA PPP Loan Forgiveness, cont.

- Forgiveness amounts will be reduced for a reduction in full-time equivalent employees (FTEEs). There are two periods to measure a reduction in FTEEs and the borrower can select the most advantageous *time period*.
- Forgiveness amounts will be reduced by a decrease in total salary of any employee in excess of 25%.
- Any balance remaining after the forgiveness will become a 10 year fully amortizing loan.

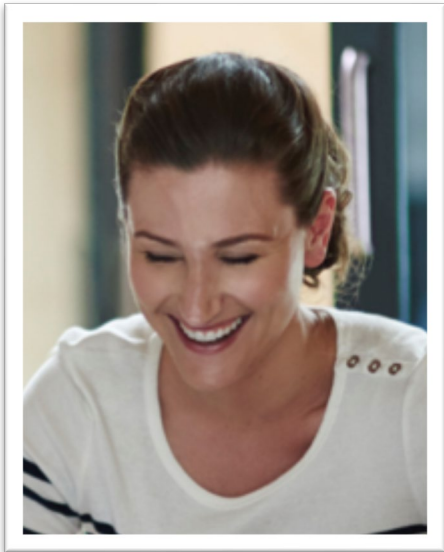


Meet Jane

Business owner who wants to apply for a PPP loan.

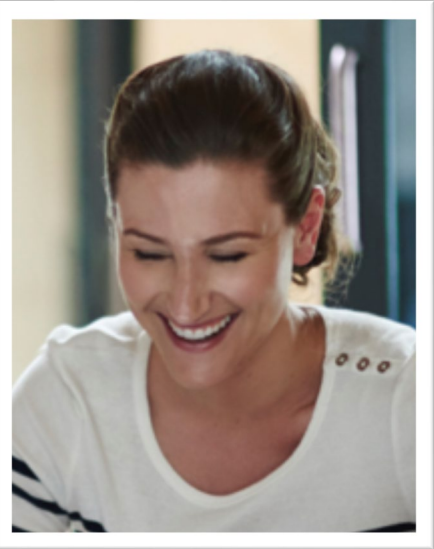
PPP Loan: Maximum Borrowing

- Jane has an **average total monthly payroll** of \$50,000.
 - Average is based on the prior one-year before the new PPP loan is originated. **SBA came out with guidance that can use calendar year 2019.**
 - If the business was not in existence during 2/15/19 to 6/30/19, use 1/1/20 to 2/29/20.
 - Under PPP, Jane can apply for up to 2.5x the average monthly payroll.
- $\$50,000 \times 2.5 = \$125,000$**
- This is capped at \$10M.



Forgiveness of PPP Loan

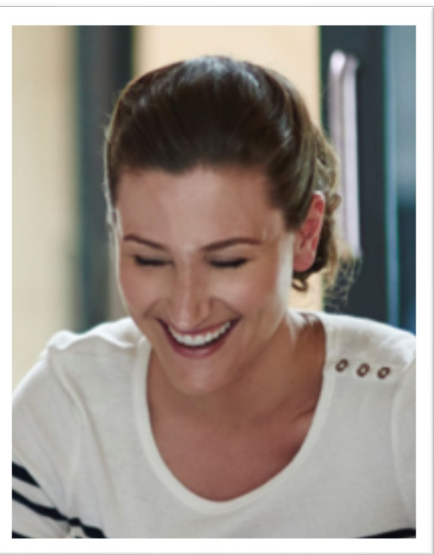
- Jane can calculate her historical average number of employees in two ways:
- Option A:** Average number of FTEEs from 2/15/19 to 6/30/19
- Option B:** Average number of FTEEs from 1/1/20 to 2/29/20



Timeframe (borrower can elect timeframe to use)	Average number of FTEEs per month
Option A: 2/15/19 to 6/30/19	11
Option B: 1/1/20 to 2/29/20	13
Covered Period (8-week testing period)	12

Jane will want to choose the method that shows she retained the most employees, **Option A.**

Forgiveness of Loan: Amount Forgiven



Type of payments during 8-week period	Amount
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Payroll	(\$90,000)
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Rent	(\$10,000)
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Utilities	<u>(\$12,000)</u>
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Total payments	\$112,000
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PPP Loan Received	\$125,000
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Amount not forgiven	\$13,000
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Upcoming Webinars

APR 14 | Business Recovery, Cash Flow + Financial Analysis

Presented by Jordan Empey, Brian Mena and guest presenter
Aikta Marcoulier, Small Business Development Center



Go to skrco.com/client-center/CoronavirusUpdates for post webinar materials.