



Paycheck Protection Program Loan Forgiveness Update

September 10, 2020

Presenters



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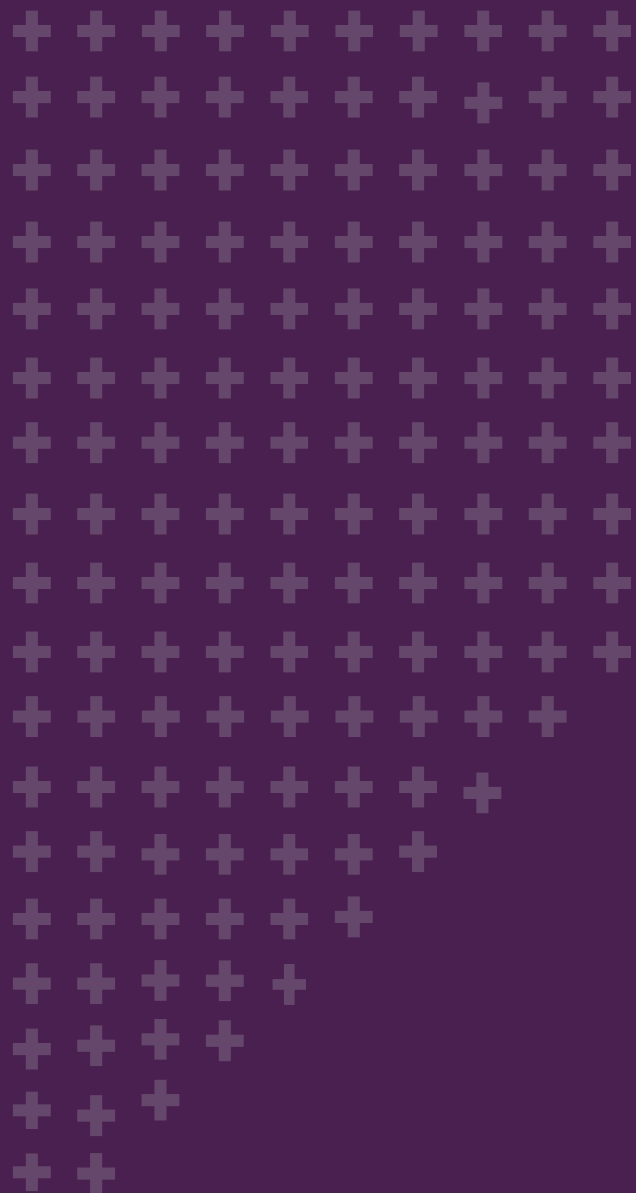


Status of Additional Legislation

Policy Maker & Regulator Activities

- PPP Phase 1 Status
 - Final FAQs/IFRs – still a few unanswered questions
 - Status of simplified forgiveness status/threshold level
 - SBA is now accepting forgiveness applications
- Phase IV – Business Relief Discussions
 - Senate Republican Targeted Relief Package
 - Aug. 8 – Executive Actions re payroll tax deferral
 - House Democratic Response and Compromises





Background and Landscape – PPP Loan Forgiveness

From February til Now...

- Initial roll-out flawed and awkward
- Political issues around PPP Loans
- Attempting to understand the rules
- More political Issues as election rhetoric heats up
- Changes to forgiveness rules in response to rhetoric
- Now time to apply for forgiveness
- AICPA and banks attempting to streamline process and not repeat the initial roll-out issues





Issues and Questions Resolved or Clarified Since Early Summer

Issues Clarified Since Early Summer

Topic	Question	Response
Accounting	How do borrowers account for a PPP?	Treat as a loan until the amount is forgiven or fully paid; accrue interest; record a gain once loan is forgiven
Applying	Can a borrower apply for forgiveness early?	Yes, but be careful about reductions in FTE or salaries.
Covered Period	Can a borrower use a covered period other than 8 or 24 weeks?	No, but the borrower can apply before the end of the covered period.



Issues Clarified Since Early Summer

Topic	Question	Response
EIDL	Is an EIDL emergency advance deducted from PPP Forgiveness?	Yes, the amount of EIDL advance reduces the amount forgiven.
EIDL	Can a borrower get an EIDL and a PPP?	Yes, but proceeds must be used for different expenses.
EIDL	What are acceptable uses of PPP vs EIDL?	PPP – wages and benefits, rent, utilities, certain interest payments EIDL – on-going business expenses

Issues Clarified Since Early Summer

Topic	Question	Response
FTE	If an employee won't come back, is fired for cause, resigns, etc. will that count as an FTE reduction?	No, that is an exception and not considered as a reduction of FTE's.
FTE	What if the borrower can't operate? Does FTE reduction still count?	No, that is an exception but be careful about your own circumstances.



Issues Clarified Since Early Summer

Topic	Question	Response
Owners	Who is an owner-employee?	See IFR



Recent IFR – Definition of owner-employee

- New interim final rule addresses owner compensation and certain nonpayroll costs including related-party payments.
- Owner-employee compensation
 - Those with less than a 5% ownership stake in a C- or S-Corp are not subject to the owner-employee compensation maximums. Now eligible for \$46,154 for 24-week covered period.
 - Owners with 5% or more ownership stake still subject to the limitations of \$20,833 for 24-week covered period.



Refresher on compensation and non-cash limits

Compensation limit depends on owner-employee status:

- Defined in Aug. 4 FAQs as “an owner who is also an employee.”
- Clarified in Aug. 24 IFR that for **S- & C-Corps, 5% ownership** is the threshold for being an owner-employee.

Payroll caps for loan forgiveness based on covered period

	8 weeks	24 weeks
Non-owner employees	15,385	46,154
Owner-employees	15,385	20,833



Issues Clarified Since Early Summer

Topic	Question	Response
Retirement Costs – Types of Ownership	Which health Insurance and retirement costs will be eligible for forgiveness?	See chart



Refresher on compensation and non-cash limits

	Health ins.	Retirement	State & local taxes (3)
Self-employed (Schedule C/F)	No	No	No
General Partner	No	No	No
S Corp owner-employee	No (1)	Yes (2)	Yes
Family members of 2% S Corp owner (4)	No (1)	Yes	Yes
C Corp owner-employee	Yes	Yes (2)	yes

- (1) S Corp owner-employee and family members health insurance would have been included in 2019 W-2.
- (2) Retirement capped a 2.5/12 of 2019 contribution.
- (3) Taxes assessed on compensation.
- (4) Family attribution rules of 26 U.S.C. 318 apply – generally spouse, children, grandchildren, parents



Issues Clarified Since Early Summer

Topic	Question	Response
Related Party Rent	Can payments for rent to a related party be forgiven?	Be careful with sub-leasing and rental to related parties.



Recent IFR - subleases

Tenants, sub-tenants and home-based businesses

Limitations on forgiveness outlined in four examples

1. Amounts not paid by tenants and sub-tenants. Example - \$10k monthly rent would be offset by a sub-tenant paying \$3k. Eligible rent for forgiveness is \$7k.
2. Allocation of mortgage interest based on % of FMV of space.
3. Pro-rate expenses in a shared rented space consistent w/2019 or 2020 plan.
4. Expenses of a home-based business deductible on borrower's 2019 tax filings or 2020 expected filings if business is new in 2020.

Recent IFR – Related Party Rent

- Related party rent
 - Eligible for forgiveness if:
 - Amounts for not exceed mortgage interest on the property during the covered period and
 - The lease or mortgage was in place prior to February 15, 2020.
- Borrower must provide lender mortgage interest documentation.
- Mortgage interest payments to a related party are **not eligible for forgiveness.**



Issues Clarified Since Early Summer

Topic	Question	Response
Utilities	What utilities are eligible for forgiveness?	Electricity, water, gas, telephone and internet; note that AICPA also includes gas for autos, garbage and security monitoring.



Issues Needing Guidance

Topic	Question	Response
Amount Forgiven	How does the salary/wage reduction apply if applying early?	Probably need to prorate limits
Amount Forgiven	Can you “out-spend” your FTE reductions?	See example; awaiting final guidance



Specific Examples Related to “Out-Spending” Your Loan & Effects on Potential Loan Reductions



Can you outspend your FTE reduction and therefore ignore the reduction?

Example: PPP loan \$1,000,000 with FTE reduction 30%

Spent \$1,500,000 on PPP eligible expenses.

30% of \$1,500,000 = \$450,000 – FTE reduction

PPP expenses \$1,500,000

Less 30% reduction -450,000

Net PPP expenses=\$1,050,000 – therefore you still get full forgiveness.

Not known if this is allowed or if they will cap the PPP expense line to the loan amount and force an FTE forgiveness reduction. In this case that would be taking the \$1,000,000 less 30% reduction = \$700,000 forgiveness amount.



Specific Examples Related to Pro-rating payroll weeks

Should you or could you pro-rate the payroll cap based on weeks used?

The current 24 week limit of \$46,154 – should you or could you pro-rate that based on the number of weeks you are using in your covered period for forgiveness? Example using 12 weeks of payroll needed for forgiveness – could/should you use a cap of $\$100,000/52 \times 12 \text{ weeks} = \$23,077$?

If using more than 8 weeks but less than 24 weeks to spend your PPP Funds, unclear as to whether you get:

- + The full \$46,154 wage limit
- + The prorated limit of \$23,077 (see above) or
- + The 8 week payroll cap of \$15,385.

WAITING ON GUIDANCE



R & D Expenditures & Overlap

- + Current IRS guidance indicates that the proceeds from the PPP loan that are used to pay expenses are not deductible and therefore would NOT be QRE if it is used to pay qualified employees.
- + Current Advice from Source (no current support for the below):
 - + If a company received a loan and it has NOT been forgiven, there is no reduction in expense and the QRE would not be reduced.
 - + Advising clients to allocate the maximum amount to NON PAYROLL.
 - + Also advising to allocate costs to NQ employees when possible.
- + Delay (extend) filing returns until guidance is received.

Sale of Business or Business Assets

- + If you are planning to:
 - + Sell your business
 - + Sell substantially all of your business assets
 - + Merge with another company

Check with the bank and loan documents to make sure that you may still have your loan forgiven. Otherwise, you may need to wait until the loan is formally forgiven.



Necessity of Loan Guidance

- + Loans over \$2MM - the updated application contains a box to be checked if the original loan exceeds \$2MM.
- + Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that “current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.





Bank and SBA Process

Overall SBA Process Outlined

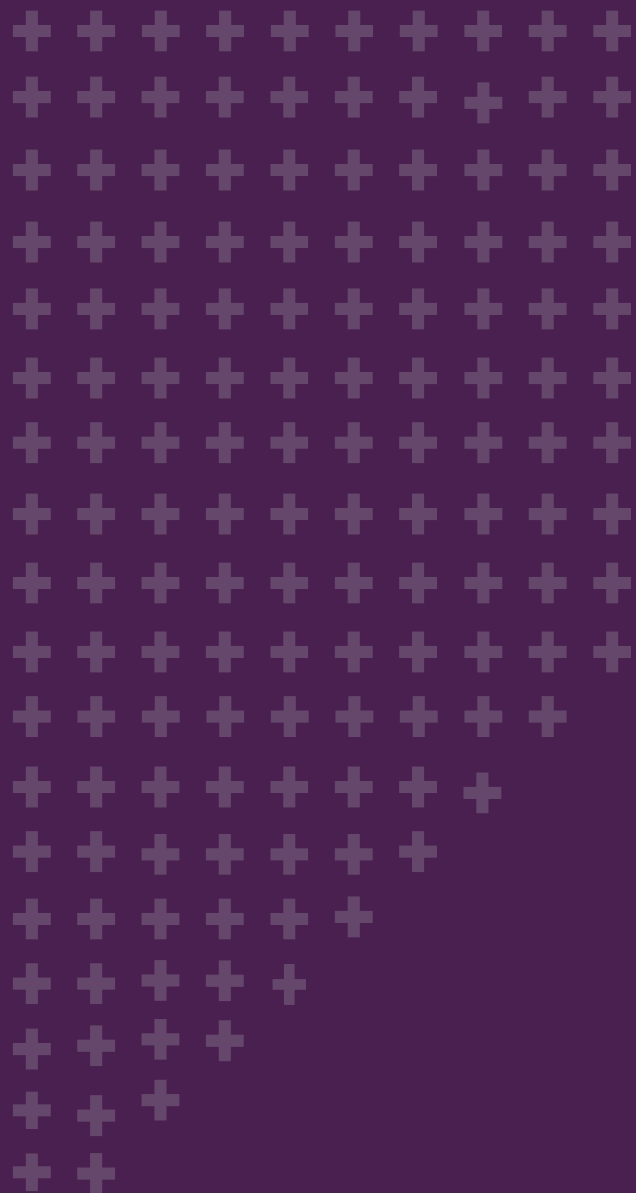
- + Borrower will complete and submit the Loan Forgiveness Application to its lender after the forgiveness period (no deadline stated)
- + Lender will review application and make a decision regarding loan forgiveness within 60 days and issue a decision to SBA
- + SBA, subject to any SBA review, will remit the appropriate forgiveness amount to the lender within 90 days
- + Lender will inform borrower of loan forgiveness amount
- + Any unforgiven amounts must be repaid on or before the maturity of the loan




Process Outlined Cont'

- + It was also noted that this general loan forgiveness process applies **only to loan forgiveness applications that are not reviewed by SBA prior to the lender's decision** on the forgiveness application.
- + And as previously communicated, the SBA has the authority to review any loans within a **six-year period** following the date the loan is forgiven or paid in full, so this process could be on-going for many years.





Current Forms and Documentation




SBA Loan Forgiveness Application 3508EZ and 3508

PPP Forgiveness Calculation Form

- + Information related to the loan obtained
 - + EIDL Loans Obtained
 - + "Box" to be checked if original loan > \$2MM
 - + Representations and Certifications
- + PPP Schedule A
 - + Detailed calculation of Cash Compensation, Non-Cash Compensation, FTE's and Self-Employed Owner or Partner Compensation
 - + Calculations of Reductions for Reduced Pay or FTE Count
- + PPP Schedule A Worksheet
 - + Table 1 – listing of employees < \$100k and FTE counts; pay reductions
 - + Table 2 – listing of employees > \$100k and FTE counts
 - + Determination of Safe Harbors for rehires by December 31, 2020

PPP Loan Forgiveness Application Form 3508EZ



Paycheck Protection Program
PPP Loan Forgiveness Application Form 3508EZ

OMB Control No. 3245-0407
Expiration date: 10/31/2020

Business Legal Name ("Borrower")	DBA or Tradename, if applicable	
Business Address	Business TIN (EIN, SSN)	Business Phone
		() -
	Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____ Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

☐ Weekly
 ☐ Biweekly (every other week)
 ☐ Twice a month
 ☐ Monthly
 ☐ Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here: ☐

PPP Loan Forgiveness Application Form 3508EZ

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here: ☐

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs: _____

Line 2. Business Mortgage Interest Payments: _____

Line 3. Business Rent or Lease Payments: _____

Line 4. Business Utility Payments: _____

Potential Forgiveness Amounts

Line 5. Add the amounts on lines 1, 2, 3, and 4: _____

Line 6. PPP Loan Amount: _____

Line 7. Payroll Cost 60% Requirement (divide Line 1 by 0.60): _____

Forgiveness Amount

Line 8. Forgiveness Amount (enter the smallest of Lines 5, 6, and 7): _____

PPP Loan Forgiveness Application Form 3508EZ



Paycheck Protection Program PPP Loan Forgiveness Application Form 3508EZ

By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The Authorized Representative of the Borrower certifies to all of the below by **initialing** next to each one.

- _____ The dollar amount for which forgiveness is requested:
 - was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes payroll costs equal to at least 60% of the forgiveness amount;
 - if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
 - if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
- _____ I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
- _____ The Borrower did not reduce salaries or hourly wages by more than 25 percent for any employee during the Covered Period or Alternative Payroll Covered Period compared to the period between January 1, 2020 and March 31, 2020. For purposes of this certification, the term "employee" includes only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000.
- _____ The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness.
- _____ I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
- _____ The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- _____ The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.

PPP Loan Forgiveness Application Form 3508EZ

_____ I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.

In addition, the Authorized Representative of the Borrower must certify by **initialing at least ONE** of the following two items:

- _____ The Borrower did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period (other than any reductions that arose from an inability to rehire individuals who were employees on February 15, 2020, if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020, and reductions in an employee's hours that a borrower offered to restore and were refused).
- _____ The Borrower was unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.


Signature of Authorized Representative of Borrower

Date

Print Name
SBA Form 3508EZ (06/20)
Page 2

Title

PPP Loan Forgiveness Application Form 3508



Paycheck Protection Program
Loan Forgiveness Application Revised June 16, 2020

OMB Control Number 3245-0407
 Expiration Date: 10/31/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")	DBA or Tradename, if applicable	
Business Address	Business TIN (EIN, SSN)	Business Phone
	() -	
	Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____ Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

☐ Weekly
 ☐ Biweekly (every other week)
 ☐ Twice a month
 ☐ Monthly
 ☐ Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here: ☐

PPP Loan Forgiveness Application Form 3508

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):

Line 2. Business Mortgage Interest Payments:

Line 3. Business Rent or Lease Payments:

Line 4. Business Utility Payments:

Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):

Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7):

Line 9. PPP Loan Amount:

Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60):

Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

EZ Form Documentation Needed & How to Provide It



- + **Payroll** – documentation verifying eligible payroll
 - + Bank statements or third-party payroll reports
 - + Payroll tax filings - Form 941, unemployment insurance tax filing reports.
(These won't tie in – looking for individual bank guidance on this.)
 - + Payment receipts, cancelled checks or account statements documenting employer contributions to employee health insurance and retirement plan contributions.
 - + If you checked only the second box on the checklist on page 1 of these instructions, the average number of full-time equivalent employees on payroll employed by the Borrower on January 1, 2020 and at the end of Covered Period.

EZ Form Documentation Needed & How to Provide It

- + **Nonpayroll** – documentation verifying existence of obligations/services prior to February 15, 2020 and eligible payments from the covered period.
 - + Business mortgage interest payments – copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the covered period or lender statements from February 2020 thru one month after the covered period.
 - + Business rent or lease payments – copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the covered period or lessor account statements from February 2020 thru one month after the covered period.
 - + Business utility payments – copy of invoices from February 2020 and those paid during the covered period and receipts, cancelled checks or account statements verifying those eligible payments.

EZ Form Documentation to maintain but **is NOT** required to submit



- +1. Documentation supporting the certification that annual salaries and hourly were not reduced more than 25% during the covered period.
- +2. Documentation regarding any employee job offers and refusals, refusals to accept restoration of reductions in hours, firings for cause, voluntary resignations, written requests by any employee for reductions in work schedule, and any inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020
- +3. Documentation supporting the certification, if applicable, that the Borrower did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period

EZ Form Documentation to maintain but is NOT required to submit cont'

- +4. Documentation supporting the certification, if applicable, that the Borrower was unable to operate between February 15, 2020 and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19. This documentation must include copies of the applicable requirements for each borrower location and relevant borrower financial records.

EZ Form Documentation to maintain but is NOT required to submit – cont'

- + 5. All records relating to the Borrower's PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower's certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower's loan forgiveness application, and documentation demonstrating the Borrower's material compliance with PPP requirements. The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

Long Form Documentation to submit

- + In addition to what is listed on the EZ list:
- + FTE calculations
 - + a. the average number of FTE employees on payroll per week employed by the Borrower between February 15, 2019 and June 30, 2019;
 - + b. the average number of FTE employees on payroll per week employed by the Borrower between January 1, 2020 and February 29, 2020; or
 - + c. in the case of a seasonal employer, the average number of FTE employees on payroll per week employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive 12-week period between May 1, 2019 and September 15, 2019.
- + The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11. Documents may include payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941) and state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state. Documents submitted may cover periods longer than the specific time period.

Long Form Documentation to maintain but is NOT required to submit



- + PPP Schedule A Worksheet or its equivalent and the following:
 - + a. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the "Salary/Hourly Wage Reduction" calculation, if necessary.
 - + b. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.
 - + c. Documentation regarding any employee job offers and refusals, refusals to accept restoration of reductions in hours, firings for cause, voluntary resignations, written requests by any employee for reductions in work schedule, and any inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020.
 - + d. Documentation supporting the certification, if applicable, that the Borrower was unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19. This documentation must include copies of the applicable requirements for each borrower location and relevant borrower financial records.
- + Documentation supporting the PPP Schedule A Worksheet "FTE Reduction Safe Harbor 2."

Long Form Documentation to maintain but is NOT required to submit - cont'

- + All records relating to the Borrower's PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower's certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower's loan forgiveness application, and documentation demonstrating the Borrower's material compliance with PPP requirements. The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request





Tax and Accounting Treatment

Accounting (Financial Statement) Business Entities

- + No FASB Standard on topic – accordingly, must use or reference the standards that exist that are similar in context and applicability
- + Accounting by analogy to FASB ASC Topic 470, Debt (forgiveness)
 - + Reduce the liability by the amount forgiven and record a gain on extinguishment once the loan is partly or wholly forgiven and legal release is received – (when SBA approves and notifies bank)
- + Accounting by analogy to FASB ASC 450-30 (gain contingencies)
 - + The earnings impact of a gain contingency is recognized when all the contingencies related to receipt of the assistance have been met and the gain is realized or realizable
 - + Likely similar accounting as ASC 470 (debt forgiveness)



Business Entities (Continued)

- + A grant by analogy to International Accounting Standard (IAS) 20, *Accounting for Government Grants & Disclosure of Government Assistance*
 - If the entity expects to meet the eligibility criteria and concludes the PPP loan represents, **in substance, a grant** that is expected to be forgiven, the recipient may analogize to IAS 20.
 - Under this model, government assistance is not recognized until there is **reasonable assurance** (similar to the “**probable**” threshold in U.S. GAAP) that any conditions attached to the assistance will be met – **it is not clear when this occurs**
 - Upon meeting the reasonable assurance threshold, the entity would reduce the liability, with the offset through earnings presented as **a credit in the income statement, generally separate (if material), also considered “other income”**



Business Entities (Continued)

- + A grant by analogy to FASB ASC 958-605 (NFP entities)
 - FASB ASC 958-605 addresses the accounting for contributions by not-for-profit entities
 - Although the scope of FASB ASC 958-605 **excludes** contributions made by governmental entities to business (for-profit) entities, FASB has acknowledged that entities scoped out of this guidance **are not precluded** from applying it by analogy when appropriate
 - The timing of recognition for a contribution received depends on whether the contribution is conditional or not
 - If conditional, the contribution is not recognized until the conditions are **substantially met** or explicitly waived
 - The entity would then reduce the refundable advance and recognize the contribution once the conditions of release have been **substantially met** or explicitly waived- **we believe this is likely achieved upon bank approval**



Accounting for All Entities

- + Most important - All entities with material PPP loans should adequately disclose their accounting policy for such loans and the related impact to the financial statements
- + Options Seemingly Available ---
 - + ASC 470 (debt forgiveness); ASC 450 (gain contingencies); GASB TB 2020-1: **Recognize upon SBA debt forgiveness**
 - + ASC 958 (NFP grant): substantially met/conditions barrier- **likely upon bank approval**
 - + IAS 20 (government grants): reasonable assurance – **not clear, could be earlier than bank approval; auditor would have higher responsibility to audit grant compliance, which can be complex.**
 - + FYEs- June 30-Oct 31 – elevated risk for recording loan forgiveness as bank review may not be completed before FS issuance. Would also need to assess if there is an elevated risk of SBA scrutiny of economic need.



Tax Treatment on Entity Returns

For Tax Purposes – Calendar or Fiscal Year Clients and Timing of Forgiveness

- + Waiting for Formal Guidance – stay tuned
- + Potential Tax Effects of multi-year fact pattern
 - + Year 1 – treat as loan with no adjustment of expense deductibility until:
 - + Option 1: Notice of forgiveness from SBA
 - + Option 2: Upon Presumption of forgiveness (loans under certain \$\$\$)
 - + Year 2 – forgiveness occurs so expenses are non-deductible
 - + Option 1: non-deductibility occurs in year 2
 - + Option 2: non-deductibility occurs retroactively in year 1
 - + Option 3: amended return is required since qualifying expenses occurred in prior year
- + Additional Issues – R & D Qualified Expenses





Employee Payroll Tax Deferral

Employee Payroll Tax Deferral Update

- + August 28 IRS News Release (IRS Notice 2020-65)
- + Deferral of employee portion of Social Security taxes (6.2%)
 - + Available for employees making less than \$4000 bi-weekly for payment of wages from Sept 1- Dec 31, 2020
 - + To be repaid from Jan 1-April 30, 2021 thru withholding (in addition to regular SS withholding)
- + Employers can choose to offer the deferral or not and Employees can choose to participate or not
- + Employer is responsible for payment of the deferred amounts and will be subject to penalties if not paid by April 30, 2021

Recommendations – Payroll Tax Deferral

+ Challenge with New Rules

- + Employer is responsible for ultimately paying withheld payroll taxes whether the employee is still employed or not.
- + Difficulty in collecting from a terminated employee and burden for employees to have double withholdings in 2021
- + Potential for forgiveness down the road (Trump executive order)

+ Recommendation to Taxpayers

- + Look at the riskiness of your employee base –
- + If risk of employee base exceeds PTO accruals or other ways to recover, and you do not feel that forgiveness will occur, OPT OUT AND DO NOT utilize the deferral of withheld payroll taxes rules
- + If employee departure risk is low and or you feel that forgiveness could occur, utilize deferral to maintain employee morale and not get in a political quagmire. Employees can choose to participate or not.
- + Be careful with payroll outsourcing companies automatically deferring the withholdings or not be up to date on new rules



Next Steps in Process

Next Steps -

- + Prepare for PPP Loan Forgiveness Application
 - + Keep in touch with your bank for “go-live” date
 - + Prepare forms and accumulate required documentation
- + Stay tuned for additional guidance and legislation
- + Contact your MCM contact person for assistance, review or consultation



Thank You
for your time!



MCM COVID-19 Resource Center

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