

New Federal COVID-19 Stimulus Package: What Small Businesses Need to Know

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Overview of today's program

- New stimulus package signed into law on December 27th
- Nearly 5600 pages long, \$1.4 trillion in spending, plus \$908 billion in COVID-19 relief
- First guidance due from SBA/treasury department tomorrow, January 6
- Most of today will focus on the current PPP funding
- First round of PPP funding last year - \$349 billion,
 - 2nd round \$310 billion, this round - \$284 billion
- We will also touch on –
 - Other relevant parts of the new legislation
 - New Employee Retention Tax Credit rules
 - Unemployment assistance updates
 - SBA Guaranteed Loan Debt Relief
- Available for questions during and after webinar
 - Email initttogether@ppa.com



New PPP funding – Am I eligible?

- You can get a PPP loan in 2021 whether you received one in 2020 or not – first PPP program will be re-opened
- The **PRIMARY** criteria - Gross receipts that were 25% less in **AT LEAST ONE** quarter in 2020 than the corresponding quarter in 2019 – more narrowly-focused than the first round
- 2.5x payroll (and/or net income) in 2020 or 2019
 - Again – **important** – PPP funding is based on having net profit/W-2 earnings
- At a minimum, you should be able to get the same amount in 2nd round as the 1st round
- Use any 12 month period to determine 2nd round PPP loan including calendar year 2019
- You had to have been in business before Feb 15th, 2020 in order to get a PPP loan under this new legislation – special rules if you started between 1/1/19 and 2/15/20 – will discuss later
- Still **at least** 60% must be spent on payroll
- Reminder – contract labor that you pay does not qualify. They should be eligible for PPP funding themselves.



New PPP rules

- If you receive a PPP loan under \$150,000, and you have employees, there will be no need to track headcounts or salary reductions on either round of funding
- Can choose a covered period of any time between 8-24 weeks from receipt of loan
- Expanded non-payroll costs allowable towards forgiveness on both rounds of funding – will review shortly
- Special rules for seasonal employers and new entities – will review shortly
- Banks are being paid higher fees to provide new PPP loans, so should they be more cooperative and competitive
- The new deadline to apply for and receive a PPP loan is currently March 31, 2021
- Most of you have probably spent all the funds from the first round, but it is not a requirement to receive another PPP loan...**“have or will spend it”**
- **First loan does not have to be forgiven yet**
- Borrowers in bankruptcy can apply for PPP loans with court approval



New PPP rules

- Reminder – currently, sole proprietors cannot use their own health insurance or retirement contributions towards the calculation or forgiveness of a PPP loan (okay for your employees)
- S-Corporations cannot use their own health insurance, but CAN use their own retirement contributions towards the calculation or forgiveness of a PPP loan (all okay for your employees)
- **EVERY SMALL BUSINESS, *especially if you have no employees*, should receive 100% forgiveness on both rounds of funding**



How much PPP funding can I receive?

- If you are a sole proprietor with no employees, you can receive 20.833% of your 2019 Schedule C line 31 (same as first round) – **still limited to \$100,000 annual**
- If you are an S-Corporation with no employees, you can receive 20.833% of your 2019 W-2 income plus 20.833% of 2019 owner retirement contribution (same as first round)
- Employee payroll costs include –
 - salary, wage, commission, or similar compensation
 - payment of cash tip or the equivalent
 - payment for vacation, parental, family, medical or sick leave
 - allowance for dismissal or separation (severance pay)
 - **payment required for the provisions of group insurance policies: health, life, disability, vision, and dental**
 - payment of any retirement benefit
 - payment of state or local tax assessed on the compensation of employees



What costs can be used towards forgiveness?

- Payroll Costs including those listed on previous slide (**all that should be necessary for sole proprietor or S-Corporation with NO employees**)
- Payment of interest on mortgage obligations incurred prior to February 15th, 2020
- Rent obligations for leases entered into prior to February 15th, 2020
- Utilities (including payment for electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020)
- **Covered operation expenditures**
- **Covered property damage costs**
- **Covered supplier costs**
- **Covered worker protection expenditures**



What can you use the funds for?

- Payroll Costs including those listed on previous slide
(all that should be necessary for sole proprietor or S-Corporation with NO employees)
- All the non-payroll costs listed on previous slide
- **Expenses allowed, but do not reduce indebtedness**
 - Interest on **non-mortgage** debt obligations even if incurred prior to February 15th, 2020
 - Interest payments on mortgage debts incurred **after** February 15, 2020.
 - Rent obligations entered into **after** February 15, 2020



Retroactive PPP pronouncements

- Borrowers can amend their original application to request increased loan amount due to changes in PPP loan rules if the original loan amount was less than amount that would have otherwise applied
- Additional eligible payroll and non-payroll costs in the new legislation are allowed to be used towards forgiveness of first PPP loan if needed



New Entities

- This is NOT for new entities started after February 15, 2020. It applies to businesses that had not been in business for a full year at February 15, 2020
- Total payroll/The number of months in business leading up to February 15, 2020 x 2.5
- Special eligibility rules. Email us for chart
- Not sure yet how owner's compensation fits into this – will require good accounting records for sole proprietor



Seasonal employers

- The maximum amount of new PPP loans is based upon 2.5 times the average monthly payroll costs for any 12 week period that begins February 15, 2019 and ends February 15th, 2020.
- Operates for no more than seven months in a year
- Can use highest 12 consecutive weeks of payroll between 2/15/2019 and 2/15/2020 to calculate loan size
- Not sure yet how owner's compensation fits into this—will require good accounting records for sole proprietor



What can you do now?

- For most of you, you should make sure you have your 2019 schedule C or 2019 W-2 ready and available again to submit to your bank.
 - The information should be nearly identical to what you submitted for first PPP loan application
- Most of you should be eligible for a 2nd round of PPP funding. You should look at your financial records to make sure you qualify –
 - If you have accounting records for 2019 and 2020, compare corresponding quarters to determine if revenue drop is 25%
 - If you don't have accounting records by quarter, add up your deposits from your bank statement and compare year-to-year
 - If you have an accountant, have them help you with this!
- If you work with a specific bank, start talking to them about their plans to make the new application available
- If you work with an online lender, look at their website for updates and announcements, or contact their customer service department



The “Necessity” Requirement

- Requirement seems to be a little clearer than it was during the first round of funding
- It may be hard for businesses that have survived one or two hard quarters but are now making ends meet to honestly certify that the loan is “necessary” for the ongoing operation of the business, even though the business could reasonably argue that they need the loan. The test will present a very important issue to be carefully addressed with the borrower’s CPA, financial and legal advisors.
- While the SBA has announced that it will not question the necessity certification for those whose loans did not exceed \$2 million, other agencies (such as the IRS or Justice Department), or even whistleblowers, may. Additionally, reception of a second loan will not be kept confidential so borrowers may have to endure harsh public scrutiny.



Other relevant parts of this new legislation

- **2020 expenses paid for with PPP funds NOW DEDUCTIBLE**
 - This is a big deal when it comes time to prepare your 2020 tax returns
 - Not such a big deal for sole proprietors with no employees that did not use any non-payroll costs towards forgiveness
- **Waiting for revised PPP forgiveness application –**
 - Form 3508S had been available for businesses that received \$50,000 or less, now expanded to \$150,000 but forms being updated
- **EIDL advances are still non-taxable and will NOT reduce PPP forgiveness**
 - If you've already received forgiveness and/or repaid the EIDL advance, your bank will be able to help you fix this
- **EIDL Advance fund replenished with \$20 Billion,**
 - **To be distributed to low income communities first**
 - Google “new market tax credit map”
 - Appears to be full \$10,000 grant if you qualify
 - Economic loss greater than 30%
 - The amount by which the gross receipts of the covered entity declined during an 8-week period between March 2, 2020, and December 31, 2021, relative to a comparable 8-week period immediately preceding March 2, 2020, or during 2019
 - Application is available - [sba.gov](https://www.sba.gov)



Other relevant parts of this new legislation

- **Business meals will be 100% deductible in 2021 and 2022 instead of 50%**
 - Does not affect PPP, but beneficial for your business
- **Stimulus checks of \$600 per taxpayer (\$1,200 for taxpayers married filing jointly) and an additional \$600 per qualifying child.**
 - The payment phases out beginning at \$75,000 (\$150,000 MFJ) of AGI
 - Based on your 2019 tax return
 - If you recently graduated from high school or have children that did, and you(they) did not receive a stimulus payment during 2020, your tax preparer or tax software may be able to help you get one retroactively
- **Pandemic Unemployment Assistance extension – will discuss shortly**



Employee Retention Credit (for businesses with employees)

- New program rules that will be beneficial to many businesses
- Previously, you could not get a PPP loan and an Employee retention tax credit. Now you can get both, but must be for wages not paid with PPP funds
- If you have employees, you should calculate both PPP and this credit to see which is more beneficial
- Eligible employers will receive a refundable payroll tax credit for up to ~~50%~~ **70%** of wages paid to employees after January 1, 2021 through June 30, 2021 (if one of the below two requirements are met).

(1) The operation of the business is fully or partially suspended due to orders from a government authority limiting commerce, travel, or group meetings due to COVID-19.

OR

(2) Gross receipts are less than ~~50%~~ **80%** of the gross receipts for the same quarter in **2019**

- Can use any quarter gross receipts from 1st Q 2020 through 2nd Q 2021
- Wages are limited to \$10,000 per employee **per quarter** (maximum credit of \$7,000 per quarter). Previously it was \$10,000/year



Employee Retention Credit (for businesses with employees)

- If you received a PPP loan in 2020, you may be eligible to go back and claim an Employee Retention Credit for 2020 as well
- PPA will provide more details when available – separate webinar just on this tax credit
- Credit claimed through your quarterly federal payroll tax returns



Unemployment Assistance

- Federal unemployment benefit of \$300 per week, extended through March 14, 2021
- Pandemic Unemployment Assistance (PUA) extends this for sole proprietors and independent contractors as well
- “Mixed Earner” Unemployment Compensation
 - \$100 per week for individuals who earn at least \$5000 per year in self-employment income but are disqualified from PUA because they are eligible for unemployment benefits as an employee



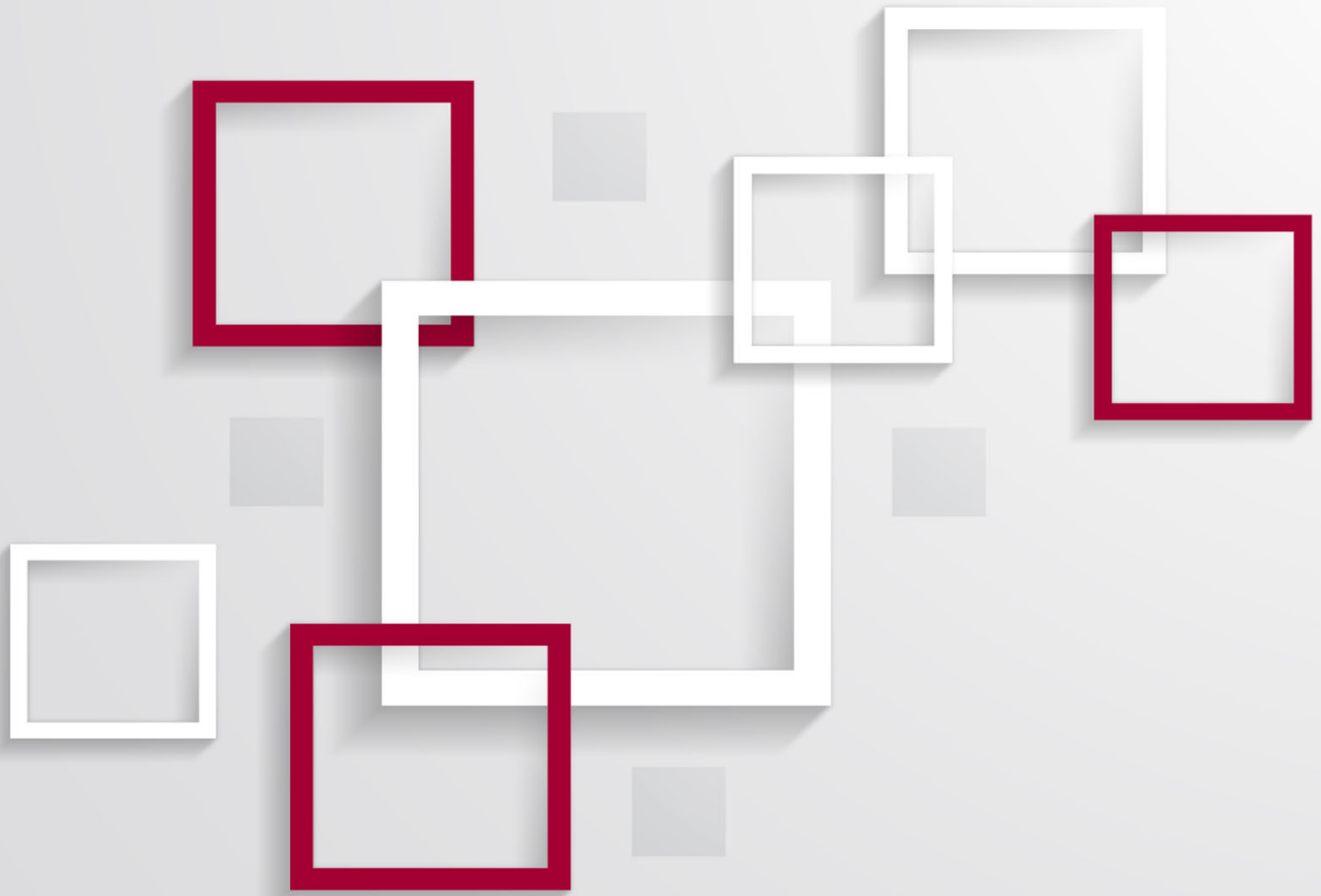
SBA Guaranteed Loan Debt Relief

- Pays an additional 3 months of principal and interest (P&I) on existing 7(a), 504 and Microloans
 - Begins in February 2021 – capped at \$9,000 per month
 - • After 3 months – businesses with selected NAICS codes will receive an additional 5 months of P&I payments – capped at \$9000 per month
- Pays 6 months of P&I for any new SBA guaranteed loans approved before Sept. 30, 2021
 - Plus 3 months after first 6 months of payments
 - Plus 5 months if you have a qualifying NAICS Code
- Improvements have been made to the SBA 7(a) program
 - Increased SBA guarantee level to 90%
 - Reduced or eliminated some fees



Moving forward

- Contact your local SBDC (Small Business Development Center) for assistance
- PPA will continue to monitor program updates and provide guidance through our website and webinars
- www.PPA.com/inittogether
- Available for questions and discussion
 - Email inittogether@ppa.com



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