

LIVE WEBINAR

Business Relief Reboot: rethinking your PPP approach and revisiting ERTC

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Boyer & Ritter LLC

www.cpabr.com



Objective

Broaden your understanding of the Paycheck Protection Program (PPP) and Employee Retention Tax Credit (ERTC) and how your business can benefit from both programs.

Agenda

- Differences and similarities of first and second draw PPP loans
- Determining your eligibility
- Maximizing your PPP loan and understanding forgiveness
- Coordinating relief between PPP and ERTC

Business Provisions in the Consolidated Appropriations Act, 2021

(signed into law 12.27.20)



- Appropriated \$284.5B for PPP loans
- Amendment, extension and enhancement of employee retention credit through June 30, 2021
- Family First Coronavirus Response Act (FFCRA) tax credits extended through March 31, 2021
- Other business provisions

PPP loan forgiveness-related expenses & EIDL advances do not create taxable income

- PPP loan forgiveness does not result in federal taxable income
 - Some states (including PA) do not conform to federal tax code.
- EIDL advance (grant) no longer reduces loan forgiveness
 - If you already received PPP loan forgiveness and it was reduced by the EIDL advance, the SBA will remit to the lender.
- EIDL advance (grant) is non-taxable income

First-Draw PPP Loans

- 501c6 Organizations
 - No more than 15% of revenue/expenses is related to federal lobbying
 - Employs not more than 300 employees
- Businesses who have not received a PPP loan
 - Can have up to 500 employees (consistent with original PPP rules)
- Must have been in operation on February 15, 2020
- Last day to apply and receive funding is March 31, 2021

Second-Draw PPP Loans

- Businesses applying for a 2nd draw must meet the following conditions:
 - 300 or fewer employees
 - Used or will use the full amount of their first PPP loan
 - Experienced a revenue reduction of 25% or more annually or during a quarter of 2020 compared to the same period in 2019
- Last day to apply and receive funding is March 31, 2021

Revenue Reduction Test

- Businesses must have experienced a revenue reduction in 2020 relative to 2019 of at least 25% during a quarter to qualify for a second draw PPP loan.
- Gross receipts include all revenue in whatever form received or accrued (in accordance with the entity's accounting method) from whatever source, including from the sales of products or services, interest, dividends, rents, royalties, fees or commissions, reduced by returns and allowances.

Revenue Reduction Example

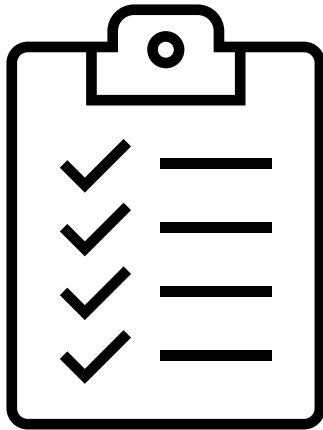
	Jan – March	April – June	July – Sept	Oct – Dec	Annual
2019	240,000	250,000	250,000	250,000	990,000
2020	300,000	125,000	210,000	120,000	755,000
	125%	50%	84%	48%	76%

- Revenue reduction met in Quarter 2 and Quarter 4
- Not required to show a 25% revenue reduction for the year

PPP Loan Calculation

- In general, the calculation is the same as 2020 PPP Loans
- Monthly average payroll costs X 2.5
- However, borrowers may choose the greater of payroll costs in 2019 or 2020 or Prior 12 months
- Payroll costs include gross wages and tips; employer contributions to employee group health, life, disability, vision, and dental insurance; retirement contributions; and state and local taxes assessed on employee compensation. There has been no change in payroll costs from 2020 PPP loans.
- Hotels, Restaurants, Other businesses with NAICS codes beginning with 72 are eligible for a PPP loan worth 3.5X monthly payroll costs

Documentation Requirement



- For loans greater than \$150,000, documentation of revenue reduction is necessary at the time of the loan. Documentation may include relevant tax forms, including annual tax forms, quarterly financial statements, or bank statements.
- The documentation required to substantiate an applicant's payroll cost calculations is generally the same as documentation required to first draw PPP loans.

Economic Necessity Certification

BEWARE...

- Must certify current economic uncertainty makes this loan request necessary to support ongoing operations of the applicant.
- FAQ #46 – if under \$2 million, certification made in good faith
- Required to aggregate?
- PPP loan recipient information will be public information.

PPP Loan Forgiveness



Covered period – between 8 and 24 weeks



Forgivable costs

- Payroll costs
- Mortgage interest payments
- Rent payments
- Utility costs
- NEW non-payroll costs

New Non-Payroll Forgivable Costs

- Covered worker protection and facility modification expenditures, including personal protective equipment, to comply with COVID-19 federal health and safety guidelines.
- Expenditures to suppliers that are essential at the time of purchase to the recipient's current operations.
- Covered operating costs such as software and cloud computing services and accounting needs.
- Covered property damage costs

PPP Loan Forgiveness Application

- Revised Form 3508S for loans under \$150K
 - Not required to provide supporting documentation
 - Must retain supporting documentation
 - Payroll records 4 years
 - All other 3 years
 - FTE and Salary/Wage reductions (exempt if loan under \$50K)
- Form 3508 and 3508-EZ for larger loans

Employee Retention Tax Credit

The Consolidated Appropriations Act, 2021 (signed into law 12/27/20) retroactively amended the CARES Act to permit PPP borrowers to also receive the Employee Retention Credit. As a result...

- PPP borrowers may be eligible for up to a \$5,000 refundable credit, per employee, per year in 2020.
- And in 2021, businesses may be eligible for up to a \$7,000 refundable credit, per employee, per quarter, through June 30, 2021



2020 ERTC Rules

- **Business disruption test:** Had to fully or partially suspend trade or business due to government order resulting from the COVID-19 emergency.
- **Gross receipts test 2020:** Experienced a 50% decline in gross receipts during a calendar quarter in 2020 when compared to the same calendar quarter in 2019. Eligibility continues until first day of the quarter after the quarter that gross receipts increase to >80% of the same quarter in 2019.
- Businesses with 100 or fewer full-time employees can use payroll costs associated with all employees paid during the period the business qualified for the employer retention credit. Businesses with more than 100 full-time employees may only claim the credit for payroll costs paid to employees not providing services.
- Available for qualified wages paid to employees after March 12, 2020, and before January 1, 2021

Revenue Reduction Example - 2020

	Jan – March	April – June	July – Sept	Oct – Dec	Annual
2019	240,000	250,000	250,000	250,000	990,000
2020	300,000	125,000	210,000	120,000	755,000
	125%	50%	84%	48%	76%

- Business become eligible for ERTC during Q2 of 2020 because revenue declined 50% compared to Q2 of 2019.
- Business loses eligibility at the end of Q3 because gross receipts were > 80% compared to Q3 of 2020.
- Business becomes eligible for ERTC again during Q4 of 2020 because gross receipts declined >50% compared to Q4 of 2019.

2021 ERTC Rules

- **Business disruption test:** Had to fully or partially suspend trade or business due to government order resulting from the COVID-19 emergency.
- **Gross receipts test 2021:** Experienced a 20% decline in gross receipts during the current or the immediately preceding calendar quarter compared to the same calendar quarter in 2019.
- Businesses with 500 or fewer full-time employees can use payroll costs associated with all employees paid during the period the business qualified for the employer retention credit. Businesses with more than 500 full-time employees may only claim the credit for payroll costs paid to employees not providing services.
- Available for qualified wages paid to employees after December 31, 2020, and before July 1, 2021

Revenue Reduction Example - 2021

	Jan – March	April – June
2019	500,000	500,000
2021	300,000	550,000
	60%	110%

- Business is eligible during Q1 of 2021 because they experienced a >20% decrease in gross receipts compared the Q1 of 2019.
- Business is eligible during Q2 of 2021 because they experienced a >20% decrease during the preceding quarter, Q1 of 2021 compared to Q1 of 2019. Despite gross receipts during the quarter exceed the same quarter in 2019.

Revenue Reduction Example - 2021

	Jan – March	April – June	July – Sept	Oct – Dec	Annual
2019	240,000	250,000	250,000	250,000	990,000
2020	300,000	125,000	210,000	120,000	755,000
	125%	50%	84%	48%	76%

- Business is eligible during Q1 of 2021 because they experienced a >20% decrease during the preceding quarter, Q4 of 2020 compared to Q4 of 2019.

Business Disruption Example

Scenario: A restaurant must suspend sit-down dining services. The restaurant may continue to offer sales for carry-out, drive-through, or delivery.

- ***Does the restaurant have a full or partial suspension of operations?***
- **Answer:** YES, business operations are considered partially suspended because a portion of its business operations – indoor and outdoor dining service – is closed due to the governmental order.

Restaurant Example Continued...

- The following month, the restaurant is permitted to offer
 - indoor dining service with six feet spacing between tables
 - outdoor sit-down
 - carry-out service

During this period, the restaurant's **business operations continue to be partially suspended** because the governmental order restricting its indoor dining service has **more than a nominal effect on its operations.**

Business Disruption Example

Scenario: An automobile repair service business, is an essential business and is not required to close its locations or suspend its operations.

Due to a governmental “stay at home” order limiting travel except for certain essential travel, such as going to the grocery store, business has declined significantly.

- ***Does the business have a full or partial suspension of operations?***
- **Answer:** NO, the business is not considered to have a full or partial suspension of operations due to a governmental order. However, this business may be considered an Eligible Employer if it has a significant decline in gross receipts.

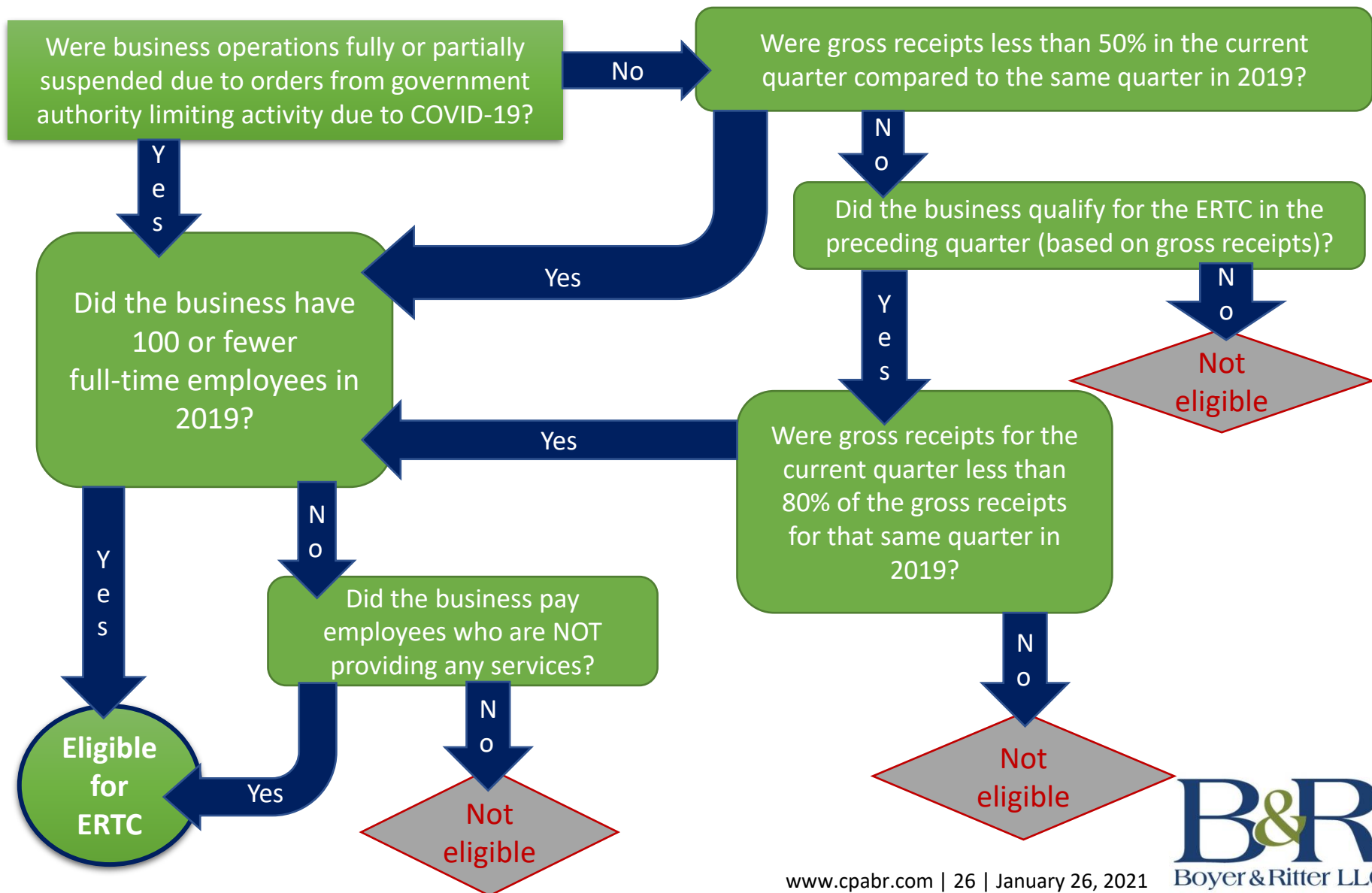
Business Disruption Example

Scenario: A law firm maintains an office in a city where the mayor has ordered that only essential businesses may operate. The firm is not essential under the mayor's order and requires the business to close its office. All the law firm's employees are teleworking.

- ***Does the law firm have a full or partial suspension of operations?***
- **Answer:** NO, the law firm's operations are not considered to be fully or partially suspended by the governmental order because its business operations may continue in a comparable manner.

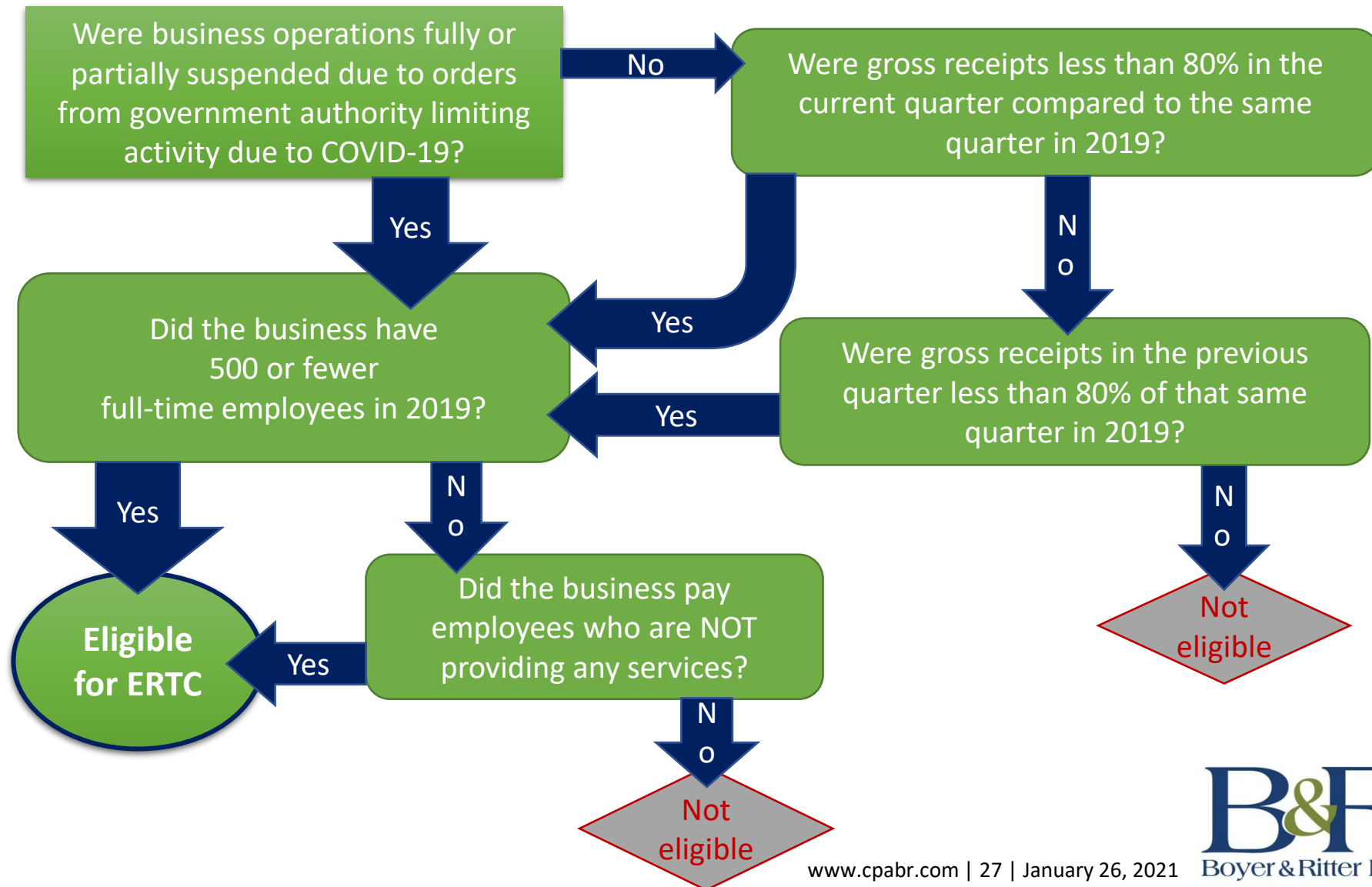
Employee Retention Tax Credit Decision Tree for 2020 quarters

The following decision tree diagram is intended for use in assisting for determining your ERTC eligibility during a quarter of 2020. Refer to the chart above for the definition of full-time employees. This is provided for informational purposes and does not constitute accounting or legal advice. You should seek accounting, financial and/or legal advice as appropriate to your situation.



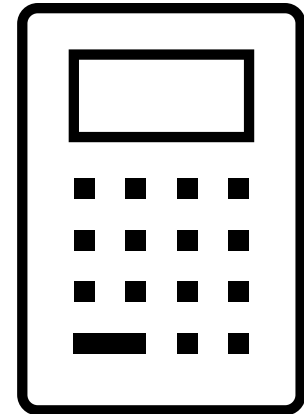
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ERTC Calculation

- In 2020, the credit allows employers to claim a 50 percent refundable credit on qualified wages up to \$10,000 per worker per year.
- In 2021, the credit allows employers to claim a 70 percent refundable credit on qualified wages up to \$10,000 per worker per calendar quarter.
- Qualified wages include wages paid to employees. Health care expenses are includable to the extent that they are excluded from the employees' gross income.



Owner-employee Rules

- For the purposes of the ERTC, wages paid to any individual who is more than 50% owner and/or familial relations of the eligible employer (including children, parents, brothers, sisters, aunts, uncles, certain cousins, and more), may not count towards the ERTC.

Full-Time Employee - Defined

Average full-time employees: Full-time workers are employees who, in any calendar month, had an average of at least 30 hours of service per week or 130 hours of service in the month.

PPP and ERTC Intersection

- The same wages (including healthcare costs) cannot be used for PPP and ERTC purposes. You can't double dip.
- PPP loan borrowers should delay submitting loan forgiveness applications until all wages eligible for ERTC purposes have been identified.
- PPP loan borrowers who have already filed for forgiveness should consider waiting until further guidance is provided by the IRS.
 - AICPA has provided recommendations to IRS and Treasury.

PPP and ERTC Strategies

- Reduce each employee's wages applied to PPP by \$10,000 (each quarter for 2021).
- Limit payroll costs for PPP loan forgiveness to 60% of the PPP loan.
 - If filing 3508S – which wages for each can be determined at a later time.
 - Evaluate all non-payroll costs to reach 40% of the loan value.
- Prioritize PPP over ERTC
 - PPP is 100% forgivable and non-taxable.

How Can Boyer & Ritter Help

- Help determine PPP eligibility
- Help applying for a PPP loan
 - Through existing banking relationship or
 - Through an alternative lender
- Help prepare loan forgiveness application
- Help maximize PPP forgiveness and ERTC opportunities



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Business Relief and PPP Loan Forgiveness Support Services

Boyer & Ritter Business Relief Advisory Services

Our firm has been at the forefront of supporting businesses throughout the pandemic in helping to understand, plan, and maximize options for relief. Boyer & Ritter's business relief services team is experienced and has the tools and capabilities to support your business in helping to understand new PPP eligibility criteria, new relief legislation, and assist with the new round of loan applications.

Related Industries

- Construction
- Dealerships
- Manufacturing
- Real Estate
- Transportation

Questions?



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