



## **Covid-19 Resources**

### **FAQs – May 18, 2020**

Getting you the answers to the many questions related to Covid-19 and its impact to you is our first priority. Things continue to evolve and change very rapidly, but please know that our team is working as quickly as possible to understand all that is taking place and going to the source for the answers. Our goal is to get you answers and information that is in **your** best interest and not get waylaid with distractions. Below are the most recent questions we have been fielding.

#### **Q1: What Does the Recently Released SBA Guidance Tell Us About PPP Forgiveness Spending?**

**Answer:** The SBA published long-overdue guidance on Friday evening May 15 in the Form of a PPP Loan Forgiveness Application. It is not clear if this is the final guidance on this matter and significant questions remain. We hope that SBA will clarify the remaining items as indicated below.

**8-week (56 Day) Period:** Presumably without additional legislation we are limited to the 8-week limit for spending forgiveness. As of this writing the House passed a \$3-trillion stimulus bill on Friday that includes extending the forgiveness period; however, news reports indicate that this bill is “dead on arrival” at the Senate. Also, yesterday, a bi-partisan bill was introduced in the Senate that would extend the 8-week period to 16 weeks. So please stay tuned. As it now stands, day 1 of the 8-week period occurs the day your PPP Proceeds are deposited to your account and ends 55 days later. For example, if you received your PPP deposit on Friday, May 8; the last day of the period would be Thursday, July 2.

**Payroll Costs - 75% or more of Forgivable Spending:** Qualified Payroll Costs include gross payroll, state unemployment taxes, employer-paid group health premiums and employer-paid retirement costs.

**Payroll:** Gross payroll includes costs paid and payroll costs incurred during the 8-week period. Payroll costs are considered paid on the day that paychecks are distributed or the day an ACH (electronic transfer) is initiated. Payroll is considered “incurred” based on the day an employee’s pay is earned. The application references eligible payroll is both of those which leads us to believe that they are allowing for both cash basis and accrual basis as long as you don’t count the payroll twice.

**What about the first payroll I ran that included days worked prior to receipt of the PPP funds that were paid after receipt. Do those days count? (i.e. is this accrual or cash basis?)** Based on our reading of the application, we believe that days worked prior to receipt of the funds may be included if they were paid during the forgiveness period. Hopefully further detail will be forthcoming. In either case, at this point, you do not need to do anything special with regard to those days.

We have learned that you can hire new employees to the practice but have not received additional information related to the potential of hiring spouses that previously were not working in the practice.

Our recommendation for any compensation paid is to document the legitimate reason for the compensation.

**Alternate Payroll Covered Period:** If Payroll is paid every-other week or more often you may elect to start your 8-week period (for payroll purposes only) with the start of your next payroll period. For example, if you received your loan proceeds on Monday, May 11 and you pay payroll every other Thursday – including Thursday, May 14 – your next payroll period begins Friday, May 15. You may opt to adopt May 15 as Day 1 of the 8-week period for payroll purposes only.

**Note:** If you pay payroll twice a month (for example for payroll dates ending on the 15<sup>th</sup> and last day of each month); or, you pay payroll monthly, you **do not qualify for the alternate**. It only applies to those paying every other week or more frequently.

**Special Rule for Final 8-week Pay Period:** Payroll costs incurred but not paid during the Borrower's last pay period of the 8-week period will qualify for forgiveness if paid timely (not later than the next regularly scheduled pay date).

**Tip:** Consider working with your payroll provider to have a short payroll period ending on the last day of your 8-week period that includes all hours worked through that same last day. This will require a little planning ahead of time.

**Does Payroll include regular pay, overtime pay, hazard pay, bonuses and paid time off including vacation, family, medical or sick leave – other than leave that qualifies for tax credits under the FFCRA?**  
Yes.

**State Unemployment Tax:** If you use a professional payroll service state unemployment is typically impounded payroll by payroll. If not, we will need to perform a calculation of this amount once we know the applicable wages for that time frame.

**Employer Paid Group Health Insurance Premiums:** The employer paid portion of premiums paid during the 8-week period. No further guidance. Given the vague definition of paid versus incurred, we are not certain if this includes only 2 months' worth of premium payments or potentially more.

**Employer Paid Retirement Plan Contributions:** The employer portion of retirement plan contributions made during the 8-week period. Again, no further guidance which leaves us uncertain as to whether it could include employer contributions due for earlier in 2020 paid during the 8-week period. For now, you should be certain to make employer contributions that would represent 8/52 weeks of what you expect your 2020 retirement contributions are likely to be.

**Owner Compensation:** If you are an S Corporation and receive wages, be sure that you are paid the maximum of \$15,384.62. If a sole proprietor or partner, your costs are limited to the lesser of \$15,384.62 or 8/52 of your 2019 self-employment income from the tax return.

#### **Non-Payroll Costs: 25% of less of Forgivable Spending:**

**Interest paid on business mortgage (secured loans).** In order to qualify, interest must relate to a secured practice loan entered into prior to February 15, 2020. No prepayments of interest are allowed. No direct guidance on interest incurred before the 8-week period paid during the 8-week period. We believe this applies to most practice loans including equipment and similar loans that are secured by the lender and would also include interests paid on office space or building if owned by an unincorporated practice (e.g.

Sole Proprietor or disregarded one-person LLC who reports mortgage interest on Schedule C to Form 1040).

**Business Rent or Lease Payments.** Must relate to agreements entered into prior to February 15, 2020. Rent may not be prepaid however; no guidance was provided on rent accrued prior to the 8-week period paid during the 8-week period. We think there is a fighting chance that this may qualify, but will need further guidance.

**Business Utility Payments:** Must relate to services contracted for prior to February 15, 2020. Business Utility Payments include Gas/Electric; Water; Sewer; Telephone and Internet Services. We assume that prepayments are not allowed. No guidance on amounts due prior to the 8-week period.

**Q2: I understand that even if we spend the money 75%/25% as prescribed, we still could potentially lose forgiveness if we don't have the same Full Time Equivalent (FTE) employees or there is more than a 25% reduction in wages. What do I need to do to avoid these reductions?**

**Answer:** Yes, there are potentially 2 adjustments to forgiveness. We will describe each below.

- 1. Decrease in Average FTE:** There is a safe harbor rule related to FTE that will likely apply to most practices. You would be exempt from the reduction in loan forgiveness based on FTE if the following conditions are met: 1) you reduced your FTE employee levels in the period beginning 2/15/2020 and ending 4/26/2020 and 2) you restored your FTE employee levels by no later than 6/30/2020 to the pre 2/15/2020 level.
- 2. Salary / Hourly Wage Reduction of more than 25%:** Originally, we were concerned that this provision would be looked at in total for your employees or over a period of time. The application makes it clear that the reduction is on an individual employee basis. Therefore, if you rehire employees at their historical hourly rate and/or they are back to their historical hourly rate by June 30, there will be no reduction and this provision will not apply. The same would apply to employees on salary. If by, June 30<sup>th</sup>, they are back on full salary this reduction will not apply to you.

**Q3: How do I compute the FTE for my practice based on the time frames above?**

**Answer:** FTE employees are defined as those working 40-hour weeks. You divide the total hours worked by 40, divided again by the number of weeks in the period of measurement. For example, an employee who worked 175 hours between 2/15/2020 and 4/26/2020 would be calculated as  $175 / 40 / 10 = 0.4$ . For PPP purposes, the number is rounded to the nearest tenth. Anyone averaging over 40 hours is capped at 1.0.

There is also a simplified method where anyone averaging less than 40 hours is treated as 0.5. You may use either method as long as you are consistent across all comparative periods. You do not need to make this decision until you submit your forgiveness documents after your 8-week period has concluded.

**Q4: I have employees that are choosing to not return to the practice yet or voluntarily resigned. Will that hurt me?**

**Answer:** No, as long as you can document it. If you made a good faith written offer to rehire an employee during the Covered Period which was rejected by the employee or if an employee was fired for cause or voluntarily resigned or requested a reduction in hours, this reduction in employees will not hurt you. We strongly encourage you to document in writing all communication.

**Q5: I thought the EIDL grant / advance didn't require repayment? Now I have to repay that?**

**Answer:** Yes. Had you received only the EIDL grant, it would have been “free money”. However, you are not able to get both free EIDL money and PPP forgiveness. The SBA will deduct EIDL Advance Amounts from the forgiveness amount remitted to the Lender. Thus, your PPP forgiveness is reduced by the amount of EIDL grant you received, essentially converting some of your eligible PPP costs into an amount that must be repaid under the PPP terms (1% interest over 2 years).

**Q6: What kind of documentation am I going to need for all of this? Will your Excel tracking spreadsheet work?**

**Answer:** Our tracking worksheet is designed to help you manage this process and estimate where you are at with maximizing forgiveness. It will not be used as part of the forgiveness application. We will be providing you a resource in the coming days that outline what information you will need to submit with your application for forgiveness. For now, be sure to maintain receipts and documentation for any expenses paid as is already required for tax deductible items. And, remember that you will have some period of time (not provided on the application) to complete all of this once the 8-week period passes, so you do not need to do this now.

For a copy of the SBA's PPP Loan Forgiveness Application (which includes details on required documentation) click [here](#).

**Dental Group, LLC** - We will be working both in the office and remotely in the coming weeks. Our meetings will be done via teleconference and or online collaboration. If you plan to drop off tax documents, please call ahead to coordinate a time when we will be in the office as there is no safe place to leave documents at the door.

Our focus in the coming weeks will be on finishing tax returns such that if a refund is due to you, we can get that as quickly as possible; we are of course continuing to monitor developments so that we can be a resource to you in making decisions relative to your practice and personal finances.

If you have any questions, please do not hesitate to contact us directly at (425) 216-1612.