



Covid-19 Resources

FAQs – May 27, 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.

Breaking News: Reports out of Washington D.C. this morning indicate that a bi-partisan agreement is close or has been achieved related to amendments to the PPP Loan Rules. In short, the proposal would significantly extend the 8-week period **and** remove the 75%/25% rule as relates to qualified Payroll Costs versus qualified Other Costs. The US House of Representatives may vote as early as tomorrow, May 28, 2020, **so stay tuned!**

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

Answer: Additional guidance released on Friday evening, May 22 expanded upon PPP Loan Forgiveness and the recent application from the week prior. It is not clear if this is the final guidance on this matter; additional questions remain. Below are some of the pertinent updates:

Note: You will see the term “paid or incurred” or “incurred or paid” below more than once. In short, the SBA is providing leeway to borrowers to include certain qualified loan forgiveness expenses that were either “incurred” during the 8-week period and paid in due course following the 8-week period or not incurred during the 8-week period but paid during the 8-week period (not including pre-payments).

Payroll Costs: Clarification that payroll costs can be incurred or paid 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. 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).

8-week (56 Day) Period: Presumably; without additional legislation, we are limited to the 8-week limit for spending forgiveness. 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.

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: The adoption of the Alternate Payroll Covered Period for those who qualify, may be more beneficial as it can move the start of the 8-week period out a few to several days – which may capture a time-frame that includes more employee hours and pay. This should be evaluated on a case by case basis.

Note: If you pay payroll twice a month (for example for payroll dates ending on the 15th 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. This decision does not ultimately need to be made until it is time to begin your PPP Loan Forgiveness Application and/or if you decide to do short payroll period at the end of the 8-week period or Alternate 8-week period.

Bonuses/Hazard Pay: The SBA made clear that any bonuses or hazard pay are included as part of an employee’s eligible compensation as long as their total compensation does not exceed \$100,000 on an annualized basis (\$15,385 during the 8-week period chosen).

Owner Compensation: This includes owner-employees (corporate shareholders) and self-employed individuals (sole proprietors or partners). Your costs are limited to the lesser of \$15,385 or 8/52 of your 2019 compensation.

Corporate shareholders are now also capped by the amount of their 2019 W-2 but can include employer retirement and health care contributions made on their behalf as part of their total compensation.

Note: No forgiveness is provided for retirement or health insurance contributions for self-employed individuals (Schedule C filers and general partners), as such expenses are paid out of their net self-employment income.

Employer Paid Retirement Plan Contributions: The employer portion of retirement plan contributions “paid or incurred” during the 8-week period are counted as part of payroll costs. The SBA’s latest guidance, published Friday evening May 22, makes clear that qualified expenses paid during the 8-week period, even if not “incurred” during the 8-week period qualify. This means the expense could have been incurred in an earlier period – but if not paid until the 8-week period it qualifies.

Employers Who Make Matching and/or Profit Sharing or Pension (e.g. Cash Balance Plans) once per year and have not funded 2019: Based on the guidance to date, payment of the total 2019 employer portion made during the 8-week period meets the test “paid or incurred”; however, at the same time this could be seen as aggressive or excessive by the SBA. Without specific guidance or examples, we just don’t know. If you have the cash to fund the 2019 contributions and are going to fund it regardless in the near future anyway, we suggest the following:

1. Go ahead and make your full deposits (or if cash is tight make at least a partial deposit) during the 8-week period.
2. Stay tuned to see if any additional guidance is provided between now and the time you need to file your Application for Loan Forgiveness.

Employers Who Make Employer Contributions on an Ongoing Basis: There is an opportunity under the “paid or incurred” rule to pick up a little more contribution than just what was incurred during the 8-week period. For example – let’s say you have semi-monthly payroll periods of the 1st through the 15th of the month and the 16th through last day – paid on the 5th and 20th of the month respectively and you make your retirement plan contributions as soon as payroll has been completed. Let’s also assume that your 8-week period began on Friday, May 15 – the date of your PPP Loan deposit.

Your last day of the 8-week period is Thursday, July 9. The payroll period beginning on July 1 and ending on the 15th and paid on July 20 includes payroll “incurred” during the 8-week period. In this example you would be able to count the earnings and related taxes for July 1 through July 9 towards debt forgiveness and related employer retirement plan contributions as well.

Thought: Arrange with your payroll company to do a short period cutoff payroll that includes hours through the last day of your 8-week period. In the example above, you would cut short the last payroll period as July 1 through July 9 and pay it shortly thereafter. Make your last employer retirement deposit on or about July 9. This will make your computations much simpler and document the last payroll period of the 8-week period accurately. Also, for those paying every-other week or more often – see Alternate Payroll Period Above.

Employers – Other Scenarios: There are other scenarios than the two above. For example, you might have made your 2019 contributions earlier in the year. You will want to work with your Dental Group Team (or other CPA) in order to maximize your 2020 retirement contributions during the 8-week period.

Non-Payroll Costs (25% or less of Forgivable Spending): A nonpayroll cost is eligible for forgiveness if it was paid during the covered period or incurred during the covered period and paid on or before the next regular billing date, even if the billing date is after the covered period.

Example: Your covered period begins on June 1 and ends on July 26. You pay your May and June electricity bills during the covered period and pay your July electricity bill on August 10, which is the next regular billing date. May and June electricity bills qualify for forgiveness because they were paid during the covered period. In addition, you may seek loan forgiveness for the portion of its July electricity bill through July 26 (the end of the covered period), because it was incurred during the covered period and paid on the next regular billing date.

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.

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