



Covid-19 Resources FAQs – June 5, 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 are the major changes to the PPP Loan Forgiveness that I need to be aware of?

Answer 1: Forgiveness Spending Period extended from 8-weeks to 24-weeks. However, you are allowed to keep the 8-week period by election.

Answer 2: 75%/25% rule for Payroll Costs versus Other Qualified Costs becomes 60%/40%; however, the 60% is now a cliff. If you don't spend at least 60% of the loan proceeds on payroll, you lose forgiveness on the entire loan¹.

Recommendation: Shoot for using 100% of the loan on payroll to allow for more simplified forgiveness application and not having to give the bank more information to review.

Q2: But what do I do if I have already spent some of the funds on rent or other non-payroll costs?

Answer: If you have already "spent" some of it on rent or other non-payroll items, that is okay. We can reallocate the funds to payroll as you spend it.

Q3: I have been using the PPP funds but I fear that I may not be transferring the right amount into my operating account or that I might have misused the funds. Is this going to be a problem?

Answer: While it is our recommendation that you segregate the PPP funds from your normal operating bank account, we are recommending that only to help you in tracking how much you have spent, how much is left to spend and to make the eventual application for forgiveness easier. It will be the information provided in the application along with the supporting documents that will ultimately determine the amount of forgiveness on this loan (along with the other requirements related to FTE calculation and maintaining employee wages). So, we recommend you try to keep the bookkeeping accurate, but if there are any minor mistakes, it is something that will be adjusted in the process of completing the application for forgiveness.

¹ Several key congressional figures have indicated that the "cliff" was unintended and may require further legislation to remove it. However, for now we highly recommend meeting or exceeding the 60% of the loan balance threshold.

Q4: Has the loan term changed?

Answer: Yes, for any new loans (made after passage of this new bill) the loan may now be amortized over 5 years. For any loans in existence prior to this new bill, you should talk with your lender. However, your goal at this point should be to spend 100% of the loan on forgivable expenses and have the loan forgiven.

Q5: I hear the rehire date is moved from 6/30/2020 to 12/31/2020. What does this mean?

Answer: The original Act and guidance required that an employer return to pre-Covid staffing levels during their 8-week covered period. An exception was granted for those unable to reach that level but who eliminated the deficiency “not later than June 30, 2020.” The only thing that has changed is the date of June 30 to December 31. So as long as you return to your staffing levels at some point before December 31, 2020, your forgiveness will not be reduced based on your number of re-hired employees.

Q6: How has the FTE requirement changed?

Answer: The original Act did not include a detailed formula for calculating FTEs. This came from subsequent SBA guidance. As major portions of the Act have changed, we presumably will receive updated guidance, and it is likely the calculation of FTEs will still be the same formula as before, but the dates and measurement periods will change. The baseline period you are comparing to (pre-Covid levels) is still either 2/15/19 – 6/30/19 or 1/1/20 – 2/29/20, at the borrower’s discretion. This is compared to “the covered period,” which is now the 24 weeks following the receipt of PPP funds. Alternatively, the statute provided an alternate calculation that applies to those businesses that laid-off workers after 2/15/2020 (virtually all dentists) by comparing 2/15/20 FTE’s and individual wage levels to June 30 or before – allowing for a business to “restore” staffing levels. This alternate calculation now reads the same except the date is moved to December 31 or before.

The guidance provided that an FTE would be based on 40-hour work weeks. It also allowed an alternate method whereby anyone working less than 40 hours would be treated as 0.5 FTEs and anyone working 40 hours or more is 1.0 FTE. There is no indication this computation will change.

An additional exception has been granted to those employers who can prove that they are unable to rehire their employees or similar qualified employees by December 31, 2020 because of compliance with certain federal government regulations on sanitation, social distancing, or other Covid-related safety measures.

Q7: When must I (can I) apply for loan forgiveness?

Answer: You now have up to 10 months after the end of your covered period or December 31, 2020 (whichever is earlier). If your FTE count is not where it should be you may want to wait to file until you have reached the necessary FTE count or will need to document your inability to hire similarly qualified employees for unfilled positions prior to December 31st to eliminate a reduction of your loan forgiveness (more guidance expected on this). For most however, if your FTE count has been reached you can file as soon as your covered period is up. Likewise, the same would be true for any wage reduction to staff. Ensure that individual pay rates are equal to 75% or more than their rate of pay at February 15, 2020 to avoid any loan forgiveness reduction.

Lastly, please note that if you do not obtain loan forgiveness before the end of the year it may mean a delay with the filing of your 2020 tax return. Should the position of the IRS regarding non-deductibility of expenses paid with PPP funds hold true, we will need to wait until a determination on loan forgiveness is made before we can file, possibly requiring an extension.

Q8: I have already spent 100% on payroll. Can I file for forgiveness now?

Answer: We believe so, but at a minimum you will need to wait until the SBA and your bank have a new loan forgiveness application available (to reflect the recent changes). Again, you may want to delay filing if you have not restored your FTE count or any wage reductions as noted above in previous sections.

Q9: I still haven't applied for the loan. Should I?

Answer: Yes! There are still funds available, and given the expanded time frame for spending, most should be able to achieve full forgiveness of the loan. If you have not already opened an application with your bank, we recommend doing so quickly, as there is still a limit to the total funds under the program, so it will not be available forever.

Q10: You keep talking about guidance. Does this new law answer those questions? Are there still things we don't know?

Answer: Guidance is still required to address a number of outstanding questions. Here is a partial list of those items we still don't know. Many of these may be less of an issue with the changes noted above:

- We still do not have confirmation that the expenses used for and receiving forgiveness will be deductible
- Payroll made to related parties
- Payment of retirement for 2019 or 2020
- Miscellaneous other payments
- Is the limit still \$15,384.62 per person or has that extended to \$100,000 prorated to 24 weeks (\$46,153.85)?
- An updated forgiveness application is anticipated

Coming Soon - PPP loan Tracker Update

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.