

Paycheck Protection Program: What You Need to Know

Kelsey Vatsaas and Jordan Smith

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- *This presentation is for educational purposes only. It should not be construed or relied on as legal advice or to create any client, advisory, fiduciary, or professional relationship between you and CLA. You should consult with your legal counsel if you have questions or concerns regarding your eligibility to participate in the Paycheck Protection Program (PPP) or other PPP-related issues.*
- *This presentation considers guidance provided by the SBA and US Department of the Treasury through 5/13/2020. Additional guidance is being provided on a regular basis, please refer to the US Department of the Treasury website (<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>) for recent updates.*



Presenters



Jordan Smith, CPA
Principal – Construction
Outsourced Business
Operations



Kelsey Vatsaas, CPA, MBA
Principal – Nonprofit
Outsourced Business
Operations



Create Opportunities



Our purpose

CLA exists to create opportunities — for our clients, our people, and our communities.



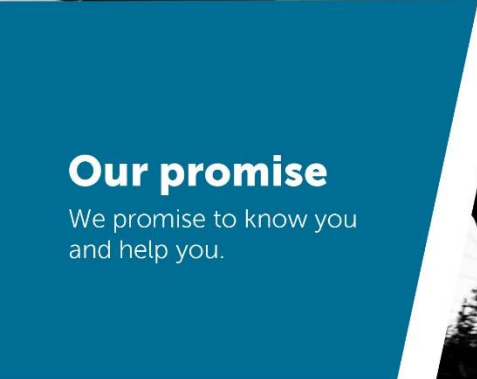
Strategic advantages

Deep industry specialization

Seamless, integrated capabilities

Premier resource for private businesses and owners

Inspired careers



Our promise

We promise to know you and help you.



CLA family culture

One family working together to create opportunities.



Facts: Our Clients

2,100+

clients engaging
global capabilities

20,000+

clients engaging
outsourcing capabilities

3,500+

clients served by
CLA Wealth Advisors

4,200+

clients engaging
employee benefit plan
capabilities

8,700+

nonprofit and
government
organizations served

89,000+

private
households served

1,500+

financial
institutions served

50,000+

private
businesses served

8,300+

health care
organizations served





Recent Updates

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Certifications

- FAQs #31 and #37 and IFR on 4/24 from Treasury
- “Economic Uncertainty” certification – new criteria
 - “[t]aking into account their current business activity and their ability to access other sources of liquidity to support ongoing operations in a manner that is not significantly detrimental to the business”
- FAQ #46 on 5/13 – Clarified that loans under \$2M will be assumed to be made in good faith; loans over \$2M will have lower risk of follow-on action by the SBA if deemed ineligible but return the loan funds requested.
- If you return ALL of the loan before **May 18th**, falls under “safe harbor” [updated 5/13, FAQ #47]





Allowable Uses and Tracking

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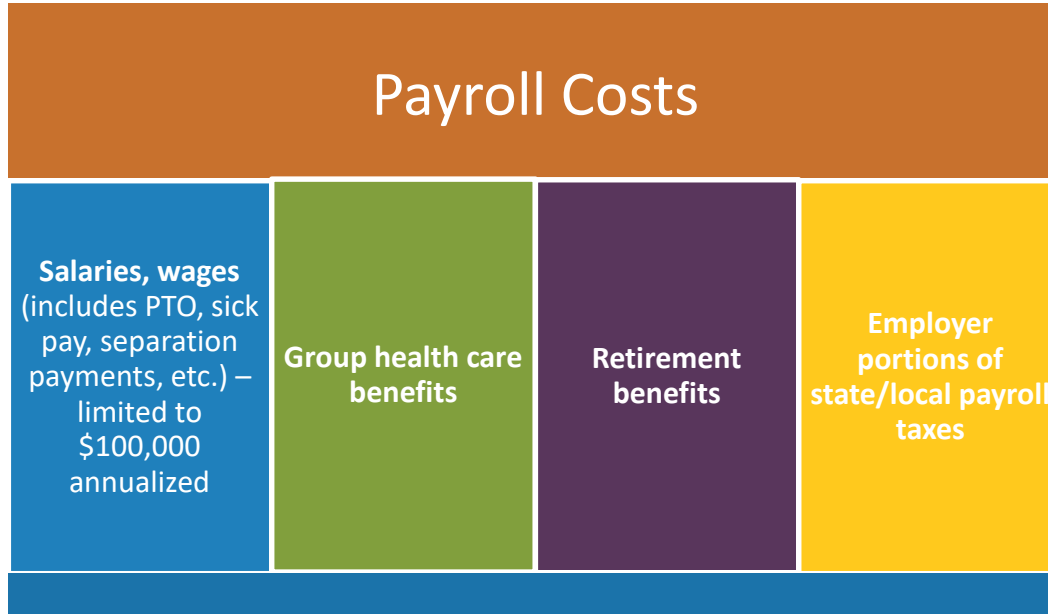
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Basics on Allowable Uses and Tracking

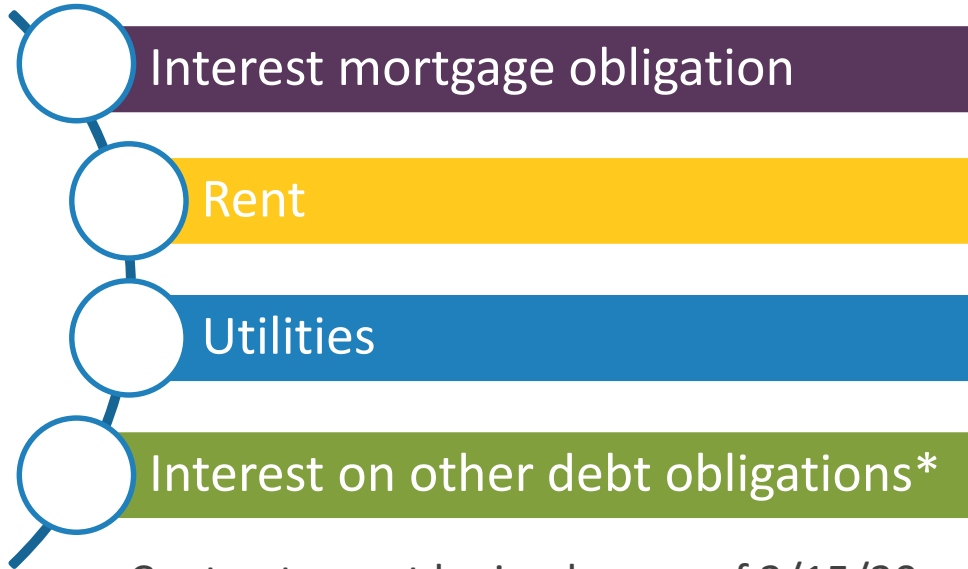
- Understand what PPP Loan Proceeds can be used for
- Know your 8-week period (starts when \$ arrives)
- Track information real time
- Accumulate supporting documentation as you go
- Consider using a segregated bank account
- Consider using your G/L capabilities



Allowable Uses



Allowable Uses (Continued)



- Contracts must be in place as of 2/15/20
- All the above are considered non-payroll costs

*May not be considered for forgiveness

Some Questions on Allowable Uses

- \$100,000 Limitation
- Gross –vs- Net Wages
- Related party rents
- Utilities (what is transportation?)
- Prepayment
- Period when these can be incurred (2/15 – 6/30/20)



Documentation

- Payroll reports and payroll tax filings
- Third party invoices
- Underlying mortgage, debt and lease agreements (to document in place before 2/15/2020)
- Cancelled checks
- Bank statements (if you use separate account)





Forgiveness

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Basics of Forgiveness

- Project now to consider operational decisions that may impact (rehires, furloughs, pay reductions)
- Forgiveness may be all, partial, or none
- Based costs incurred and paid during 8 weeks
- Application and verification process
- Guidance pending from Treasury/SBA



Allowable Versus Forgivable Costs

Allowable Uses (Section 1102)

- “Payroll Costs” (same as loan sizing)
- Interest on Mortgage Obligations
- Rent
- Utilities
- Interest on any Other Debt Obligations
- Feb 15 – Jun 30, 2020
- At least 75% on Payroll Costs

Forgiveness (Section 1106)

- “Payroll Costs” (same as loan sizing)
- Interest on Mortgage Obligations
- Rent
- Utilities
- 8-Weeks Starting at Loan Origination
- Reductions for:
 - Non-payroll over 25%
 - FTE reductions
 - Wage reductions

Forgiveness – Four Items to Consider

#1. Did the entity spend enough on allowable costs?

#2. Did the entity maintain FTEs? (includes re-hires thru 6/30)

#3. Did the entity maintain wages at least 75% of prior quarter? (excludes high earners)

#4. Was enough of that spending on payroll? (25% limit on non-payroll)

#1. Total Incurred and Paid Test

| Reduction Test #1 | |
|---|------------------|
| Did Entity Spend Enough on Allowable Costs? | |
| Summary | |
| Result | No |
| Reduction | \$ 40,000 |
| Detailed Calculation | |
| Loan Proceeds | \$ 200,000 |
| Allowable Costs | 160,000 |
| Reduction | <u>\$ 40,000</u> |



#2. FTE Test

Benchmark Period –
The lower of either:
2/15 – 6/30/2019, or
1/1 – 2/29/2020

Reduction applies to
both payroll & non-
payroll costs

| Reduction Test #2 | |
|--|------------------|
| Did Entity Maintain or Increase FTEs? | |
| Summary | |
| Result | No |
| Reduction | \$ 22,857 |
| Detailed Calculation | |
| FTEs in Covered Period** | 60.0 |
| FTEs in Benchmark Period*** | 70.0 |
| Reduction % | 14.3% |
| Payroll Costs (Not to Exceed Loan Proceeds) | \$ 100,000 |
| Non-Payroll Costs (Not to Exceed Loan Proceeds Less Payroll Costs) | 60,000 |
| Potential Forgiveness Amount | 160,000 |
| Multiplied by Reduction % | |
| Payroll Costs | \$ 14,286 |
| Non-Payroll Costs | 8,571 |
| Reduction | <u>\$ 22,857</u> |

Calculating Full-Time Equivalent Employees

- Salaried employee = 1 FTE
- Full-time employee = 1 FTE
- Part-time employee = aggregate # of part-time hours / 30
- 30 hours/week used to determine Full-time vs part-time classification
- Calculate for each pay period and use an average for the measurement period



#3. Wages Level Test

Only applies to employees making less than \$100k.
8-week must be at least 75% of pre-COVID wages*

| Reduction Test #3 | |
|--|-----------|
| Did Entity Maintain Wages at a Sufficient Level? | |
| Summary | |
| Result | No |
| Reduction | \$ 10,000 |
| Detailed Calculation | |
| Wage Reduction based on Full Quarter (Tab E, Cell J12) | \$ 10,000 |

* Based on quarter of last full employment, generally Q1 2020 or Q4 2019.

#4. Non-Payroll Limit of 25%

| | |
|---------------------------|------------------|
| Payroll Costs | |
| Reduction for #2 | \$ 100,000 |
| Reduction for #3 | (14,286) |
| Payroll Costs for Test #4 | (10,000) |
| | <u>\$ 75,714</u> |

| Reduction Test #4 | |
|--|------------------|
| Was Enough of that Spending on Payroll? | |
| Summary | |
| Result | No |
| Reduction | \$ 26,190 |
| Detailed Calculation | |
| Payroll Costs (Less Reductions in Tests #2 and #3) | \$ 75,714 |
| Divided by 75% | / 75% |
| Potential Forgiveness | \$ 100,952 |
| Multiplied by 25% | x 25% |
| Limit for Non-Payroll Costs | \$ 25,238 |
| Actual Non-Payroll Costs (Less Reduction in Test #2) | 51,429 |
| Reduction | <u>\$ 26,190</u> |

Questions on Forgiveness

- Order of the 4 tests isn't specified
- 75% payroll threshold – whispers that this is a binary test for forgiveness (if under, 0 forgiveness)
- Accrual –vs- cash –vs- hybrid for reporting costs
- FTE calculation
 - What is base for F/T vs P/T (we believe 30 hours)
 - Assessment frequency (pay period, monthly, annual avg)



Questions on Forgiveness

- Wage reduction mechanics
 - What if you don't rehire – 100% reduction or excluded from test?
 - What if someone leaves during 8 week period?
 - Is test really comparison of 8 weeks to 75% of last pre-loan full quarter
 - What about new employees?



How CLA Can Help...

- Consultation on Forgiveness and other PPP matters
- PPP Forgiveness Calculator
- Assistance with Forgiveness Calculation and assembly of Forgiveness Package
- Outsourcing of Forgiveness Tracking and Calculation
- Working capital planning using CLA Intuition



Resources

- Treasury Website –

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

- SBA Website –

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>

- CLA's COVID Relief Center

Bi-weekly Livestreams

<https://www.claconnect.com/COVID19>

- US Chamber of Commerce

<https://www.uschamber.com/coronavirus>





[CLAconnect.com](https://claconnect.com)

Kelsey Vatsaas, CPA, MBA
Kelsey.Vatsaas@claconnect.com
612-376-4657

Jordan Smith, CPA
Jordan.smith@claconnect.com
612-397-3285

