

WHERE IS THE MONEY?

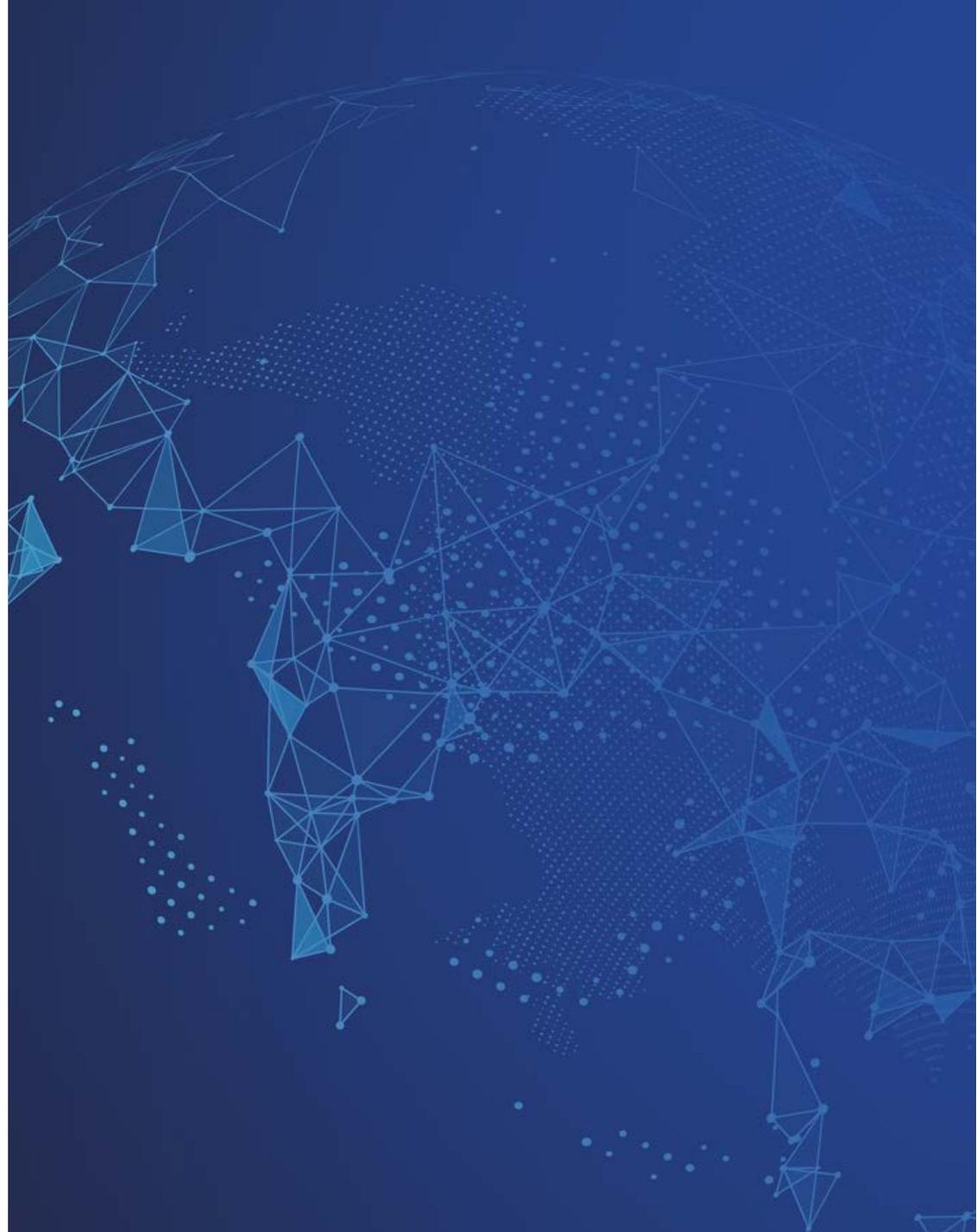
*HELPING YOU NAVIGATE THE PAYCHECK
PROTECTION PROGRAM*

April 7, 2020



AGENDA

1. PURPOSE OF THE WEBCAST
2. OVERVIEW OF PPP
3. IMPORTANT TIMELINES AND DATES
4. PAYMENT PROTECTION PROGRAM – ANALYSIS TOOL
5. PAYMENT PROTECTION PROGRAM: NUANCES, BENEFITS TIPS & PITFALLS
6. EMPLOYEE RETENTION CREDIT
7. DEFERRAL OF PAYMENT OF EMPLOYER PAYROLL TAXES
8. CARES ACT BUSINESS INCOME TAX CHANGES
9. QUESTIONS & ANSWERS



To achieve a better understanding of the CARES Act and Paycheck Protection Program and Payroll Retention Credit

OVERVIEW OF THE PAYCHECK PROTECTION PROGRAM



Eligible Businesses

Small businesses, nonprofits, Tribal business concerns, and veteran's organizations that:

- Have less than 500 employees or the applicable size standard for the industry as provided by SBA, or
- Are sole proprietors, self-employed individuals, or independent contractors
- Were in business on Feb. 15, 2020



Maximum Loan Amount

The lesser of:

- 2.5X average monthly payroll costs during the 1-year period* before the date on which the loan is made, or
- \$10 million
- *For new businesses, the measurement period would be Jan. 1 to Feb. 29, 2020

The legislation also temporarily increases the maximum amount for an SBA Express loan from \$350,000 to \$1 million through December 31, 2020



Terms of Loan Forgiveness

Loan recipients will be eligible for loan forgiveness for an 8-week period after the loan's origination date in the amount

equal to the sum of the following costs incurred during that period:

- Payroll costs (compensation above \$100,000 excluded)
- Payment of interest on mortgage obligation
- Rent obligations
- Utility payments

The amount forgiven cannot exceed the amount borrowed.



Important Dates to Remember

- Retroactive to February 15, 2020 – June 30, 2020

2/15/2019 **Important Timelines and Dates** 4/30/2021

2/15/2020 Loan Period "Covered Period" 6/30/2020

4/30/2019 Payroll Cost Calculation Period 4/30/2020

*For illustration purposes, use 4/30/20 as the "Loan Date" - the 1 year period before Loan Date

"Forgiveness Period"

There are many important dates/timelines established. This is one of the most critical. From the date of the loan thro **4/30/2020** subsequent 8 week period, the defined costs incurred will be forgiven. Only the costs that are incurred specifically during this period will be forgiven.

6/25/2020

4/30/2020 Deferral Period - principal, interest, fees (6 to 12 months) 4/30/2021

Reduction of Forgiveness Calculation:

2/15/2019 Option A 6/30/2019

1/1/2020 Option B 2/15/2020 2/29/2020 Measurement Period 6/30/2020

*Seasonal employers have different period



Questionnaire

1 Are you willing and able to provide a "Good Faith Certification" that this loan is necessary because of economic uncertainty caused by COVID-19 and will be applied to maintain payroll and make required payments?

Yes

2 Do you have more than 500 employees?



Paycheck Protection Program - Analysis Tool

Questionnaire

Congratulations! You are eligible for relief under the Paycheck Protection Act of the Coronavirus Aid, Relief and Economic Security Act. PLEASE CONTINUE BELOW:

1 Are you willing and able to provide a "Good Faith Certification" that this loan is necessary because of economic uncertainty caused by COVID-19 and will be applied to maintain payroll and make required payments?

Yes

2 Do you have more than 500 employees?

No

3 Please enter the expected date of the loan (February 15, 2020 to June 30, 2020):



Paycheck Protection Program - Analysis Tool

Questionnaire

Congratulations! You are eligible for relief under the Paycheck Protection Act of the Coronavirus Aid, Relief and Economic Security Act. PLEASE CONTINUE BELOW:

- 1 Are you willing and able to provide a "Good Faith Certification" that this loan is necessary because of economic uncertainty caused by COVID-19 and will be applied to maintain payroll and make required payments? Yes
- 2 Do you have more than 500 employees? No

3 Please enter the expected date of the loan (February 15, 2020 to June 30, 2020): 4/1/2020

4 What was the **TOTAL** payroll costs* during the trailing 12 month period before the date entered in Question #3?
*include wages, tips, commissions, vacation, parental, family, medical or sick leave, severance, group health insurance premiums, retirement benefits, state or local tax assessed on compensation of employees





Questionnaire

Congratulations! You are eligible for relief under the Paycheck Protection Act of the Coronavirus Aid, Relief and Economic Security Act. PLEASE CONTINUE BELOW:

- | | |
|---|--------------|
| 1 Are you willing and able to provide a "Good Faith Certification" that this loan is necessary because of economic uncertainty caused by COVID-19 and will be applied to maintain payroll and make required payments? | Yes |
| 2 Do you have more than 500 employees? | No |
| 3 Please enter the expected date of the loan (February 15, 2020 to June 30, 2020): | 4/1/2020 |
| 4 What was the TOTAL payroll costs* during the trailing 12 month period before the date entered in Question #3?
*include wages, tips, commissions, vacation, parental, family, medical or sick leave, severance, group health insurance premiums, retirement benefits, state or local tax assessed on compensation of employees | \$ 3,600,000 |
| 5 Do you have any employees that earn more than \$100,000 per year? | Yes |
| 6 Were any employees included in Question #4 receiving qualified leave wages under the Families First Coronavirus Response Act? | |

PAYCHECK PROTECTION PROGRAM – ANALYSIS TOOL



Paycheck Protection Program - Analysis Tool

Questionnaire

Congratulations! You are eligible for relief under the Paycheck Protection Act of the Coronavirus Aid, Relief and Economic Security Act. PLEASE CONTINUE BELOW:

1 Are you willing and able to provide a "Good Faith Certification" that this loan is necessary because of economic uncertainty caused by COVID-19 and will be applied to maintain payroll and make required payments?	Yes
2 Do you have more than 500 employees?	No
3 Please enter the expected date of the loan (February 15, 2020 to June 30, 2020):	4/1/2020
4 What was the TOTAL payroll costs* during the trailing 12 month period before the date entered in Question #3? *include wages, tips, commissions, vacation, parental, family, medical or sick leave, severance, group health insurance premiums, retirement benefits, state or local tax assessed on compensation of employees	\$ 3,600,000
5 Do you have any employees that earn more than \$100,000 per year?	Yes
6 Were any employees included in Question #4 receiving qualified leave wages under the Families First Coronavirus Response Act?	No
7 Were any employees included in Question #4 non-U.S. residents?	No

This is your applicable payroll costs: \$ 299,444

This is your Maximum Loan Amount: \$ 748,610

Anticipated Debt Forgiveness: \$ -

PAYCHECK PROTECTION PROGRAM – ANALYSIS TOOL

Paycheck Protection Program Debt Forgiveness



<Enter in these Blue Fields>

Enter the loan amount: \$ 767,708 <<Will not allow you to enter an amount exceeding the "Maximum Loan Amount" calculated on the Questionnaire

Debt Forgiveness Calc

8 weeks of			
Payroll	480,769		
Interest on mortgage	5,000 (use 2 months for estimation purposes)	Principal (after forgiveness)	\$ 281,424
Rent obligations	40,000 (use 2 months for estimation purposes)		
Utilities	5,000 (use 2 months for estimation purposes)	Monthly Debt Service:	\$ 23,614
		Starting:	4/3/2021
Total	530,769		
Nonpayroll Exclusion	-		
Wage Reduction	(20,585)		
Headcount Reduction	(23,261)		
Debt Forgiveness	486,923		

**Payroll costs (as defined) taken from the Questionnaire x 2 as an approximation of 8 weeks. This assumes consistent payroll expenses for the 8 weeks following the loan date as the monthly average of payroll costs calculated in the Questionnaire.

Reduction (1) Calc:

Average Headcount	Option A	Option B	Forgiveness Period	Quotient:	
February 2019	50.0			96%	
March 2019	50.0			4%	
April 2019	50.0				
May 2019	50.0				
June 2019	51.0				
January 2020		51.0			
February 2020		50.0			
March 2020					
April 2020			48.0		
May 2020			48.0		
June 2020					
	50.2	50.5	48.0		

Reduction (2) Calc:

Employee Name	During the Quarter Ending 3/31/2020	Pre-Loan Per Month	Salaries During Period** week Period	Post-Loan Per Month	\$ Change in Salaries	% Change in Salaries	Reduction	Wage Calc	
1 Employee 1	YES	30,000	10,000	18,461	10,000	-	0%	-	15,385
2 Employee 2	YES	100,000	33,333	61,538	33,333	-	0%	-	15,385
3 Employee 3	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
4 Employee 4	NO	16,250	5,417	2,000	1,083	(4,334)	-80%	(4,334)	2,000
5 Employee 5	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
6 Employee 6	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
7 Employee 7	NO	16,250	5,417	8,000	4,333	(1,084)	-20%	-	8,000
8 Employee 8	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
9 Employee 9	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
10 Employee 10	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
11 Employee 11	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
12 Employee 12	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
13 Employee 13	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
14 Employee 14	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
15 Employee 15	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
16 Employee 16	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
17 Employee 17	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
18 Employee 18	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
19 Employee 19	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
20 Employee 20	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000
21 Employee 21	NO	16,250	5,417	10,000	5,417	-	0%	-	10,000

PAYCHECK PROTECTION PROGRAM: NUANCES, BENEFITS, TIPS AND PITFALLS



Eligible Employers

Small business; Any business concern; nonprofit organization; Veterans organizations; Tribal business concern
Less than 500 employees, or SBA employee restriction if higher



Affiliation Rules

NAICS 72
Franchise



Definition of Wages

Wages, tips, commissions
Vacation, parental, family, medical, sick leave (excluding leave related to FFCRA)
Retirement payments
Group insurance premiums
State or local tax assessed on compensation of employees



\$100k Limitation



8-Week Period Immediately Following Loan Origination:

- Payroll costs same as included above
- Mortgage Interest – real and personal property
- Rent/Lease – payments made to leases enforce before February 15th
 - No comment on restriction for related party rent
 - Additional rent/lease payments
- Utilities – electricity, water, heat, transportation, internet, telephone
- Only incurred costs during this period
- Managing costs during the 8-week period



Exemption for Re-hires

- Headcount reduction based on averages
 - Feb – Jun 2019
 - Jan-Feb 2020
 - Feb-Jun 2020
- Wages reductions
Based on salary and wages



Terms of the Loan

- 10 years amortization
- Interest rate capped at 4%



PPP Published Application

- Oversimplification
- Post loan verification process

EMPLOYEE RETENTION CREDIT

Employee Retention Credit for Employers Subject to Closure Due to COVID-19 (§ 2301) Section 2301 of the CARES Act allows “eligible employers” a refundable payroll tax credit equal to 50 percent of qualified wages paid to each employee for each calendar quarter during the COVID-19 crisis.

The qualified wages which may be considered cannot exceed \$10,000 per employee for all quarters. The credit cannot exceed the applicable employment taxes on the qualified wages (reduced by any credits taken under the [Families First Coronavirus Response Act](#) noted above or the [employer credit for paid family and medical leave](#)).

IRS released Form 7200 in draft form on March 31, 2020 to be used to claim the employee retention credit and credits under the FFCRA.

NOTE: YOU CAN TAKE ADVANTAGE OF THE CARES TAX CREDITS OR LOAN PROGRAM, BUT NOT BOTH

“Specified Period”

- Those employers (including non-profit employers) whose businesses were fully or partially suspended during the calendar quarter due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings due to COVID-19.
- The definition for “eligible employers” also includes those employers that experienced a “significant decline in gross receipts” for a given calendar quarter.
- An employer becomes an “eligible employer” under the “significant decline in gross receipts” test during the first calendar quarter for which gross receipts for that quarter are less than 50 percent of gross receipts for the same calendar quarter in the prior year.
- The eligibility period ends in the calendar quarter following the first calendar quarter in which gross receipts are greater than 80 percent of gross receipts.

“Qualified Wages” based on employer size”

- Eligible employers that had an average of 100 or fewer full-time employees in 2019 may take the credit for all employee wages, whether the employee was furloughed.
- For eligible employers with more than 100 average employees in 2019, the employer may take the credit only for the wages of employees who were furloughed or placed on reduced hours because of a business closure or reduced gross receipts. The definition of "qualified wages" includes the cost of health benefits for the same calendar quarter in the prior year.

DEFERRAL OF PAYMENT OF EMPLOYER PAYROLL TAXES

Defer paying the employer portion of certain payroll taxes through the end of 2020

- Includes (A) the taxes imposed under Code Sec. 3111(a) (social security taxes), (B) so much of the taxes imposed under Code Sec. 3211(a) as are attributable to the rate in effect under Code Sec. 3111(a), and (C) so much of the taxes imposed under Code Sec. 3221(a) as are attributable to the rate in effect under Code Sec. 3111(a) (RRTA taxes). (Act Sec. 2302(d)(1))
- Effective beginning the date of the enactment of the Act and ending before January 1, 2021
- 50% of deferred taxes are due December 31, 2021 and remaining 50% due December 31, 2022
- This will not apply to any taxpayer which has had indebtedness forgiven under Act Sect 1106 with respect to a loan under Small Business Act Sect 7(a)(36)

CARES ACT BUSINESS INCOME TAX CHANGES

Temporary repeal of taxable income limitation for net operation losses: Temporarily removes the taxable income limitation to allow NOL to fully offset income.

- Applying to tax years beginning after December 31, 2017

Modification of rules to net operating loss carrybacks: NOLs arising in a tax year beginning after December 31, 2018 and before January 1, 2021 can be carried back to each of the 5 years preceding the tax year of loss

Modification of limitation on losses for noncorporate taxpayers: Temporarily modifies the loss limitation for noncorporate taxpayers so they can deduct excess business losses arising in 2018, 2019, and 2020.

Corporate minimum tax credit is accelerated: Allows corporation to claim 100% of AMT credits in 2019.

Deductibility of interest expense temporarily increased: Temporarily and retroactively increases the limitation on the deductibility of interest expense under Code Sect 163(j)(1) from 30% to 50% for tax years beginning in 2019 and 2020.

- For partnerships: Under a special rule for partnerships, the increase in the limitation will not apply to partners in partnerships for 2019 (it applies only in 2020). (Code Sec. 163(j)(10)(A)(ii)(I) as amended by Act Sec. 2306(a))

Bonus depreciation technical correction for qualified improvement property: Provides a technical correction to TCJA and specifically designates qualified improvement property as 15-year property for depreciation purposes, eligible for bonus depreciation.

- Retroactively effective to September 27, 2017





QUESTIONS AND ANSWERS

To ask questions, please use the **Q&A** box on the lower left-hand side of your screen





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For more information on how we're helping organizations address some of the challenges due to COVID-19, please visit www.mazarsusa.com/covid-19

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