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May 13, 2020

## **You received the PPP money now what?**

First, this will change. Current legislation is already being considered which will change everything, again. This is our first interpretation of the loan forgiveness application. Official guidance has not been released. We feel it is extremely important to do a projection based on this information so that you may plan your rehiring strategy accordingly to maximize loan forgiveness.

## **First a couple updates from the IRS and the SBA. (IMPORTANT!!!!!!!!!!)**

1. IRS Notice 2020-32: The IRS put out their interpretation of the CARES Act in terms of loan forgiveness. While Congress passed a law that said the PPP money received by businesses would not be included in income, the position of the IRS is that the expenses paid with PPP money are not deductible.

The AICPA and members of Congress strongly disagree on the interpretation and are asking for legislative clarification to fix this interpretation. This is a wait and see and we should know more as the year progresses.

2. The publicity from the initial round of PPP funding was focused on public companies that applied for the money as well as large banks that could not submit the applications because of the sheer volume. On April 23, 2020, the SBA issued guidelines in reference to a question about large companies with adequate sources of liquidity to support the business's ongoing operation would still qualify for a loan.

The answer was that “*All borrowers* should review carefully the required certification that current economic uncertainty makes this loan request necessary to support the ongoing operations of the applicant.”

What does this mean? The best advice for this would be to extensively document the decreased business activity, the decrease in revenue, additional expenses incurred. Also, future revenue is a concern here as well. If you've had projects or jobs fall through because of COVID-19, then that would necessitate an economic uncertainty. In the end, its most important to document everything.

**The SBA has extended the no penalty repayment date to May 14,2020. If you feel you do not meet the economic uncertainty clause, then you may pay it back by this date.**

**Update 5/13/20. Safe Harbor for all loans less then \$2 million deemed to have made the required certification concerning the necessity of the loan request in good faith.**

## When do I have to spend the money by?

1. The Covered period is the following eight weeks from the day the money is deposited.

## What to do with the money?

### 1. Payroll Costs

- a. Gross Wages
  - b. Employer Retirement Contributions
  - c. Employer Paid Health Insurance
  - d. State Unemployment and Local taxes based on compensation (St. Louis Employers Earnings Tax)
2. **Covered Rent** – rent in force prior to 2/15/20. There is no distinction between personal and real property equipment rent is covered rent as well as occupancy. Self-Rentals work too. We are waiting on clarification whether CAM is included (Most likely will not be included)
  3. **Covered Utilities** – Electricity, gas, water, trash, telephone or internet access. Also a home office the corresponding business percentage can be used for utilities as well.
  4. **Covered Interest** – Interest on mortgage obligations in place prior to 2/15/20. This includes equipment loans and other business debt obligations.

## What is excluded from Payroll Costs?

1. Employers portion of Social Security, Medicare and Federal Unemployment Taxes
2. Workers Compensation Insurance

## How do I achieve forgiveness?

Use the spreadsheet “PPP Forgiveness Worksheet 051220.xlsx” to calculate forgiveness. The spreadsheet includes two limitations. 1) 75% of PPP funds used for payroll costs. 2) The amount of FTE’s retained through the covered period.

## PPP Expenses

1. 75% needs to be for payroll costs.
2. Up to 25% can be used for the allowed covered expenses.
3. All the money has to be spent within the 8 week covered period.

## Full Time Equivalent Calculations

- 1) Full Time Equivalent (FTE) calculation is currently being developed and understood.
  - a. Payroll providers will most likely help you in this determination
  - b. Call Devereux and Company to assist with the calculation.
  - c. There are three possible periods for the FTE determination
    - i. Test Period 1: 2/15/19 – 6/30/19
    - ii. Test Period 2: 1/1/20 – 2/29/20
    - iii. Any 12 week period between 5/1/19 and 9/15/19 (Seasonal Employees Only)

**EIDL Advance** – Any forgiveness of the PPP loan is reduced by the forgivable EIDL advance. So if you meet all the criteria for forgiveness and received a \$3000 advance, then your repayment would be \$3000

The borrower will have 30 days to submit their forgiveness application to the bank once the covered period ends. The bank will have 60 days to review your application and make a recommendation to the SBA. Please note that each bank will probably have their own system and methods for determining loan forgiveness.

Regards,

James P. Devereux, C.P.A.