

COVID 19 FEDERAL RESPONSE AND YOUR PRACTICE: ROUND 2 – WHAT NOW?

PRACTICE INTEGRATED WEALTH MANAGEMENT



BUCKINGHAM
STRATEGIC WEALTH

ADA C.E.R.P.® Continuing Education
Recognition Program

TODAY'S AGENDA

- | **I applied for the EIDL Advance, what happens next?**
- | **I received the PPP, now what?**
- | **If I take the PPP AND EIDL loan how do I manage these?**
- | **What do we know about forgiveness of PPP expenses?**
- | **What don't we know about PPP forgiveness?**
- | **I did not to apply for PPP, what can I do?**

FOR BUSINESS OWNERS

CARES Act Provisions for Small Business Owners	Economic Injury Disaster Loan (EIDL): SBA 7(b)(2)	Paycheck Protection Program (PPP) Loan: SBA 7(a)	Employee Retention Credit	Delay of Payment of Employer Payroll Taxes
Loan or Credit Source	SBA https://covid19relief.sba.gov/#/	Private Lender (bank, etc.)	IRS	IRS - Secretary of the Treasury
Maximum Amount	\$2,000,000	\$10,000,000	50% of employee wages up to \$10K per employee <100 employees: credit for all employees >100 employees: credit for wages paid to employees who did not work	The employer portion (50%) of employer payroll taxes from March 27, 2020 - January 1, 2021 can be deferred. Does not apply to Medicare taxes.
Who Qualifies	500 employees and under Paid staff or independent contractors paid in 2020 Negatively affected by COVID-19	500 employees and under Paid staff or independent contractors paid in 2020 Negatively affected by COVID-19	Had trade or business during calendar year 2020 Fully or partially suspended operation in 2020 due to government regulation OR experience decline of gross receipts by 50% for a calendar quarter (compared to prior years quarter)	Had trade or business during calendar year 2020
Loan Amount Calculation	Submit data: SBA will decide	2.5 times average total monthly payroll costs, including self employed earnings Plus any SBA 7(b)(2) Loans (EIDL Loan)	Wages paid from March 12, 2020 - January 1, 2021 Including health plan expense	50% of delayed payments due 12/31/2021 50% of delayed payments due 12/31/2022
Use of Funds	Payroll costs Sick leave Rental costs Repaying obligations Increased costs for materials	Payroll costs Continuation of health insurance Employee salaries (under \$100K) Interest on mortgage or rent payments Utilities Interest on debt obligations incurred prior to 2/15/2020	IF YOU USE THE EMPLOYEE RETENTION CREDIT YOU CANNOT UTILIZE THE PPP LOAN	IF YOU DELAY THE PAYMENT OF EMPLOYER PAYROLL TAXES YOU CANNOT UTILIZE THE PPP LOAN
Forgiveness Amount	\$1,000 per Employee Capped at \$10,000 EIDL Emergency Grant Provision Applies as advance against PPP Loan forgiveness	Payroll costs Rent or interest on mortgage payments Utility payments NOTE: SBA has issued guidance that at least 75% of the forgiven amount should be for payroll cost		
Forgiveness Window	NA - \$10K is grant. If loan exceeds \$10K roll into PPP SBA 7(a) Loan	Forgivable costs incurred in the eight weeks following loan origination		

BENEFITS TO EMPLOYEES (AND OWNER)

CARES Act Expanded Unemployment Benefits

Elimination of one week waiting period

Increase of \$600 weekly payment on top of state's unemployment

Short-time compensation program (unemployment benefits for cut hours)

Unemployment of self-employed

Unemployment compensation extended by 13 weeks

Year	2019	2020
TOTAL PRODUCTION	3,241,089	3,562,546
COLLECTION LOSS	162,054	178,127
% Production	5.00%	5.00%
TOTAL COLLECTION	3,079,034	3,384,419
Average Monthly Collections	256,586	282,035

MAJOR EXPENSES

EMPLOYEE EXPENSE		
Total Staff Salaries	374,382	385,614
Total Hygienist Salaries	187,170	195,930
Total Employee Fringe Benefits	32,859	33,115
Employee Payroll Taxes	45,767	47,396
TOTAL EMPLOYEE EXPENSE	640,178	662,055
% Production	19.75%	18.58%
TOTAL LAB & SUPPLY EXPENSE	601,039	660,651
% of Production	18.54%	18.54%
FACILITY EXPENSE		
Office Rent	62,083	63,946
Total Utilities Expense	9,470	9,754
Total Repairs and Maintenance	20,048	20,649
TOTAL FACILITY EXPENSE	102,755	105,837
% Production	3.17%	2.97%
TOTAL PROMOTION EXPENSE	41,356	31,997
% Production	1.28%	0.90%
TOTAL MAJOR EXPENSES	1,385,328	1,460,540
% Production	42.74%	41.00%
TOTAL MINOR EXPENSES	193,846	189,475
% Production	5.98%	5.32%
TOTAL DISCRETIONARY EXPENSES	87,540	87,540
% Production	2.70%	2.46%
TOTAL ASSOCIATE EXPENSES	140,263	210,395
% Production	4.33%	5.91%
OPERATING CASH FLOW	1,272,057	1,436,469
% Production	39.25%	40.32%

KNOW YOUR NUMBERS TO KNOW YOUR PLAN

Major Expenses

Staff and Employees (non-doctor)

Lab and Supplies

Facility

Promotion

Minor Expenses – Non-clinical back office

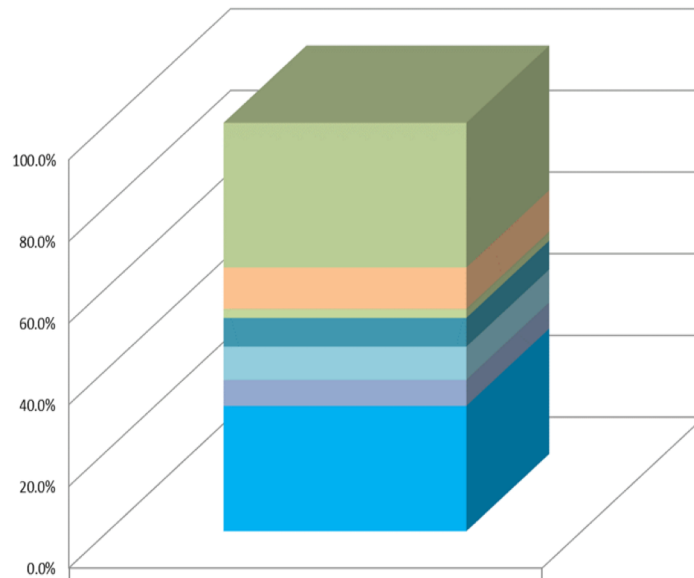
Discretionary – Capital management

Associate – If present

Operating Cash Flow

BENCHMARKS AND TOOLS

Tools for cash preservation



Remainder	35.4%
Discretionary	
Minor Expenses	10.12%
Promotional Expense	2.24%
Facility Expense	7.01%
Lab Fees	8.11%
Dental Supplies	6.43%
Associate	
Staff	30.68%

➤ Staff:

Expanded Unemployment

Paycheck Protection Program (PPP)

EIDL: Caution

➤ Lab and Supplies:

Variable

➤ Facility Expenses:

Negotiation

PPP

EIDL

➤ Promotion:

Variable or Negotiation

➤ Minor:

Variable

➤ Discretionary:

Negotiation

PPP – interest only use, no forgiveness if not mortgage

FEATURES OF THE EIDL ADVANCE

How is the EIDL SBA 7(b)(2) Advance different than SBA 7(b)(2) Loan?

- | Advance is for up to \$10,000 (\$1k per employee)
- | Advance is supposed to be low document review threshold (will see in experience)
- | Advance does not require payment and will be rolled into the 7(a) PPP Loan Forgiveness
- | Advance has a dedicated application site and process

WHAT IS AN EIDL GRANT / ADVANCE – WHAT HAPPENS NEXT?

| EIDL ADVANCE: EIDL SBA 7(b)(2) Advance

- Specific to COVID 19 economic harm
- Utilize the SBAs direct lending infrastructure to provide grant
- Designed to be unpaid and forgiven

| EIDL Loan: SBA 7(b)(2) Loans

- Traditionally used as low interest loans provided to disaster areas
- Designed to be directly administered by the SBA
- Designed to be repaid

EIDL LOAN (NOT ADVANCE)

| Amount of Loan – BLACK BOX

| Written Offer:

- 3.75% Rate
- 30 year Term
- No prepayment penalties

WHAT IS A PPP LOAN

| SBA 7(a) Loans

- Traditionally used as low interest loans provided to small business owners as lender of last resort
- Designed to be directly administered by lenders
- Designed to be repaid

| PPP SBA 7(a) Loan

- Specific to COVID 19 economic harm
- Utilize the SBA's partner banks and lending institutions
- Designed to be substantially forgiven

EIDL ADVANCE USE VS PPP LOAN USE

EIDL Grant & Loan Use

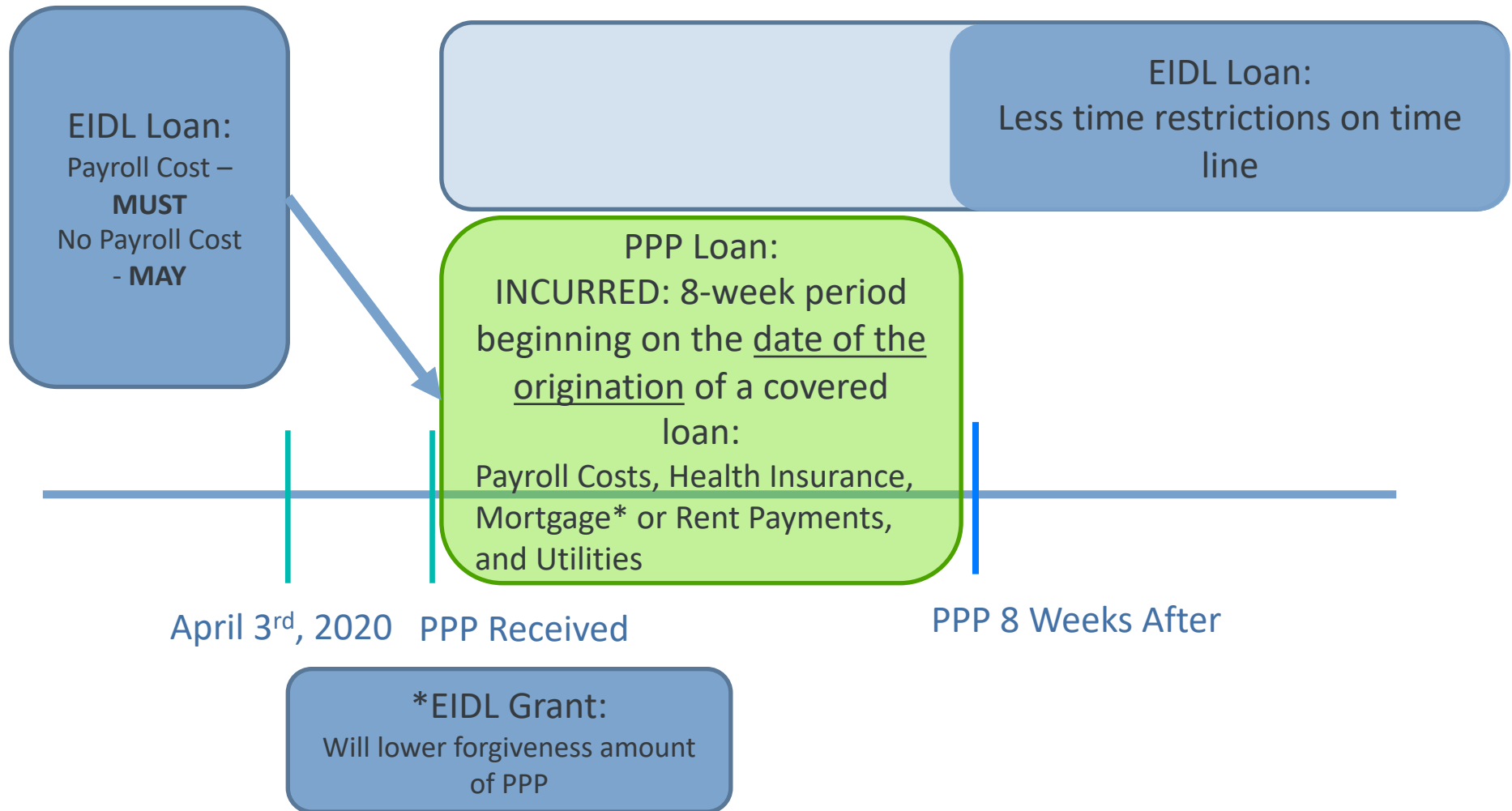
- | Maintaining Payroll
- | Provide Sick Leave
- | Rental Costs
- | “Repaying Obligations”
- | “Increased Costs to obtain materials”

PPP Loan Use

- | Payroll Costs
- | Continuation of Health Insurance
- | Employee Salaries (under 100k)
- | Mortgage* or Rent Payments
- | Utilities
- | Interest on debt obligations (not forgiven)

* Only amount paid on interest is to be forgiven

MANAGING A PPP LOAN AND EIDL LOAN



For Illustrative Purposes Only

PPP AMOUNT VS USE VS FORGIVENESS

Loan Amount

Average Monthly
Payroll Costs X 2.5

+

SBA 7(b)(2) loans

Loan Amount

Allowable Use

| Payroll Costs

| Mortgage* or Rent
Payments

| Utilities

| Interest on debt
obligations prior to
2/15/2020

FORGIVABLE Expenses

| Payroll Costs

| Interest on Mortgage or
Rent Payments

| Utilities: electricity, gas,
water, transportation,
telephone, or internet
access

PPP – HOW TO THINK ABOUT TIMING

Access to Capital?

BIRD IN HAND

- | Move to get PPP as soon as possible
- | Assume you will be limited to NO forgiveness
- | Leverage for capital on hand
- | 2 year loan at 1% interest
- | Do if you have inadequate access to capital

RISK IS NO FORGIVENESS

Forgiveness of Loan?

MAX FINANCIAL BENEFIT

- | Delay and monitor
- | Time for practice reopening
- | Maximize forgiveness – NOT EXPENDATURES
- | Loan Forgiveness SBA Statement:
 - 75% HAS to go Payroll Costs

RISK IS NO FUNDING

RENT VS LEASE: ALLOWABLE USE VS FORGIVABLE USE

Allowable Use

| CARES Act

| Sec 1102(a)(2)(F)(i)(V):

“rent (including rent under a lease agreement)”

Forgivable Use

| Cares Act

| Sec 1106(a)(4):

“The term “covered rent obligation” means rent obligated under a leasing agreement in force before February 15, 2020;”

| Interim Final Ruling:

“rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C”

FORGIVENESS LIMITATIONS: SELF EMPLOYED

f. What amounts shall be eligible for forgiveness?

The amount of loan forgiveness can be up to the full principal amount of the loan plus accrued interest. The actual amount of loan forgiveness will depend, in part, on the total amount spent over the covered period on:

- i. payroll costs including salary, wages, and tips, up to \$100,000 of annualized pay per employee (for eight weeks, a maximum of \$15,385 per individual), **as well as covered benefits for employees (but not owners)**, including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums);
- ii. owner compensation replacement, calculated based on 2019 net profit as described in Paragraph 1.b. above, with forgiveness of such amounts limited to eight weeks' worth (8/52) of 2019 net profit, but excluding any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of the Families First Coronavirus Response Act

FORGIVENESS LIMITS

The 75% Rule – The conflicting language that caused confusion

| Restrictions on how I can use PPP loan proceeds:

- At least 75 percent of the PPP loan proceeds shall be used for payroll costs.

| What amounts shall be eligible for forgiveness?

- 75 percent of the amount forgiven must be attributable to payroll costs for the reasons specified in the First PPP Interim Final Rule.

Employee Count and Employee Salary Reductions

| Reduction Based on number of employees.

- Average FTE over 8 week period
- To Average FTE from:
2/15/2019 – 6/30/2019
OR
1/1/2020 – 2/29/2020

| Reduction Related to Salary and Wages

Reduction of 25% or more

- **Exemption:** Remedied by June 30th 2020 will not be considered as terminated or reduced for the above.
- **Documentation:** Employee refuses offer to rehire? borrower must have made written offer of rehire, and the employee's rejection must be documented by the borrower.

EMPLOYEE COUNT CONCERNS

Will a borrower's PPP loan forgiveness amount be reduced if the borrower laid off an employee, offered to rehire the same employee, but the employee declined the offer?

| No, exclusion for borrower who offered to rehire:

- Same salary/wages and same number of hours
- Good faith effort
- Written Offer
- Employee rejection must be documented

| Notes for employee:

- Employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.
- Federal CARES Act supplement to unemployment runs for 13 weeks.
- Job market post shelter in place?

IRS RULING 20-32

- 1: PPP Loan Forgiveness won't count as taxable income.
- 2: PPP Loan Expenses (forgiven) cannot be deducted.

TWO REMAINING IMPORTANT UNKNOWNNS

What's FTE?

| FAQ Q 36: What employees count toward 500 limit?

Application: Any and All

“For purposes of loan eligibility, the CARES Act defines the term employee to include “individuals employed on a full-time, part-time, or other basis.””

Forgiveness: FTE as Term of Art

“By contrast, for purposes of loan forgiveness, the CARES Act uses the standard of “full-time equivalent employees” to determine the extent to which the loan forgiveness amount will be reduced in the event of workforce reductions.”

TWO REMAINING IMPORTANT UNKNOWNNS

Funding Qualified Plans

Payroll Costs Defined – CARES Act

(aa) the sum of payments of any compensation with respect to employees that is a—
“(FF) payment of any retirement benefit;

ACT Language:

FORGIVENESS.—An eligible recipient shall be eligible for forgiveness of indebtedness on a covered loan in an amount equal to the sum of the following costs incurred and payments made during the covered period:

(1) Payroll costs

Interim Ruling Language (Sole Prop):

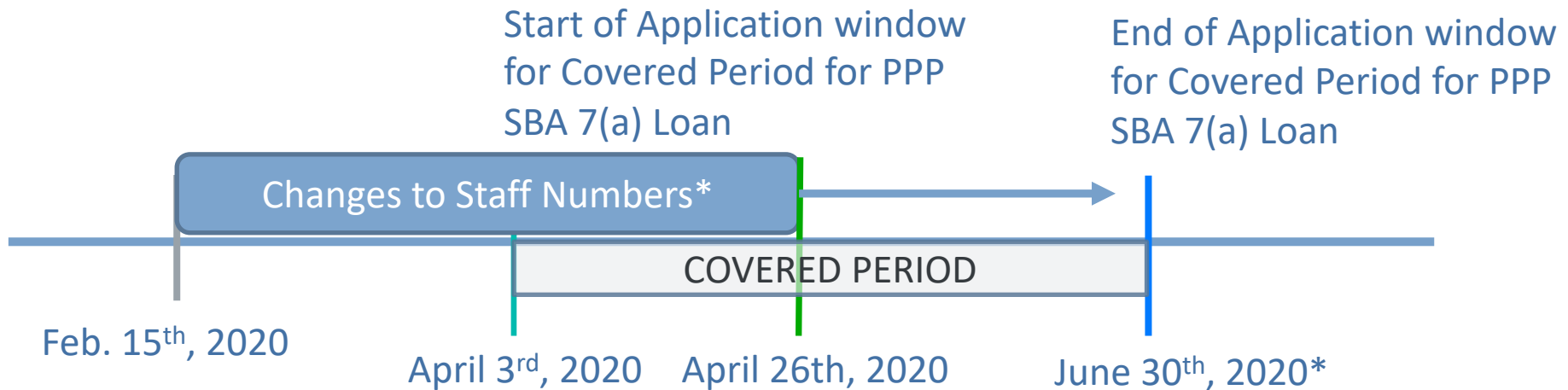
The actual amount of loan forgiveness will depend, in part, on the total amount spent over the covered period on:

i. payroll costs including salary, wages, and tips, up to \$100,000 of annualized pay per employee (for eight weeks, a maximum of \$15,385 per individual), as well as covered benefits for employees (but not owners), including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums);

PPP AND FORGIVENESS TIMING

INCURRED: 8-week period beginning on the date of the origination of a covered loan:

Loan forgiveness can extend to August 25th 2020 subject to availability



- **Exemption for Rehire:** An employee who was terminated from 2/15/2020 to 30 days of the enactment of the CARES Act, and is rehired by June 30th 2020 will not be considered as terminated for the above.
- **Document offer to rehire**

For Illustrative Purposes Only

HOW TO MANAGE

- | Separate Bank Account
- | Utilize Expanded Unemployment and PPP together
- | Track explicit expenses for forgiveness and documentation
- | Do not feel obligated to utilize full loan amount
- | Tally ongoing overhead expenses:

Ongoing Overhead X 3 = Desired Payroll Expenses

WHAT IS EMPLOYER RETENTION CREDIT

| New credit against payroll taxes

- 50% of wages paid to each employee, up to max of \$10k of wages/person

| Eligible wages means:

- For businesses up to 100 employees, all wages (up to \$10k)
- Includes cost of qualified health care expenses allocable to wages

WHAT IS EMPLOYER RETENTION CREDIT

| Must qualify by either:

- Having operations partially/fully suspended due to government-required suspension of operations
- Have a quarter with <50% of revenue (not profit) from same-quarter 2019

| Will qualify to receive until earlier of:

- End of 2020
- When suspended operations resume for the quarter
- Quarter after revenue >80% of same calendar quarter of 2019

* Ineligible if a business has received a PPP loan

* No credit available for self-employment taxes

DEFERRAL OF PAYROLL TAXES

| Employers will be permitted to defer 2020 payroll taxes

- 50% due on 12/31 of 2021
- Remaining 50% due on 12/31 of 2022

| Applies to self-employed individuals as well (only 'employer' portion)

- 50% due 'like normal'
- 25% due on 12/31 of 2021
- Remaining 25% due on 12/31 of 2022

| Ineligible if business has had debt forgiven under PPP

QUALIFIED PLAN PROVISIONS

Direct Withdrawals:

- 401(k) and IRA: May withdrawal \$100K in 2020
 - No 10% penalty
 - Spread income tax across three years
 - Can repay in three years

Loan Increase:

- Loan increases from max \$50k to max \$100k

QUALIFIED PLAN PROVISIONS

| Required Minimum Distributions Suspended:

- Applies to 401(k)s and IRAs
- 70.5 in 2019 or earlier
- 72 in 2020 (SECURE Act)
- Inherited IRA

STUDENT LOAN PROVISIONS

Payment Suspension:

- Federal Student Loans Suspended through September 30th
 - No accrual of interest
 - Involuntary Collections Suspended through Sept. 30th
- Leverage if you have a private lender

STUDENT LOAN PROVISIONS

Employer Provision:

- Employer payments
 - \$5,250 in employer payment
 - Direct to lender
 - Tax-Free to employee
 - Deductible to employer

MORTGAGE ABATEMENT

Mortgages backed by Federal Government:

- 180 day abatement allowed
- Optional, 2nd 180 of mortgage abatement
- NOTE: INTEREST ACCRUES AND PAYMENT MAY BE DUE AT ONCE

QUESTIONS?

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