

# PAYCHECK PROTECTION PROGRAM (PPP):

## Loan Forgiveness and Tax Planning for 2021



*December 18, 2020*

# Introduction

**Jennifer French**  
*Partner*

*Construction and Real Estate  
Team Leader  
Today's Moderator*





# Today's Panelists



**Jennifer French**  
CPA  
*Partner, Construction &  
Real Estate Team Leader*



**Maura Lange**  
CPA  
*Partner*

# Polling Question #1



# Where are we now?



# PPP Loan Forgiveness Applications



# PPP Loan Forgiveness Applications

SBA Form	Length	When Used
3508S	2 pages	< \$50,000 loan
3508EZ	3 pages	<u>Either:</u> <ul style="list-style-type: none"><li>• Self-employed with no employees, or</li><li>• No FTE or pay rate reductions, or</li><li>• Reduced FTEs (but not pay rates) due to COVID-19</li></ul>
3508	5 pages	All others



# And, for all PPP Loans of \$2 Million or More:



SBA Form	Category of Borrower
3509	For-profit loan necessity questionnaire
3510	Non-profit loan necessity questionnaire

## By the numbers:

- ✓ **9** pages each
- ✓ **21** “after-the-fact” questions – Business Activity, including Q2 revenue; Liquidity Assessment, including employees receiving \$250,000+ salary; Some open explanation fields.
- ✓ **6** questions require supporting documents
- ✓ **10** days to return form and support
- ✓ **30,000** of the 5.2 million PPP loans were > \$2 million

# PBMares Forgiveness Deliverable



## Table of Contents



September 4, 2020

Company A  
PO Box 123  
Anywhere, VA 22401

### PPP Loan Forgiveness Computation Letter

Dear :

Based on the data that you have provided for the 12-week covered period through July 6, 2020, we estimate that your business may be eligible for PPP to **\$211,925**. Your \$10,000 EIDL grant does not need to be repaid. However, whether any amount of your PPP loan will be approved for forgiveness. Y PBMares harmless from any and all claims arising from or related to the activity of the PPP Loan Forgiveness Application and the ultimate forgiveness of the SBA loan you received due to PBMares' good faith completion of service.

Our computations supporting the above amount are attached. Should you please call me.

As a follow-up, please let us know if your lender makes any revisions to the

In addition, when the Small Business Administration provides you

### Company A Forgiveness Amount Calculation

Total PPP Loan \$ 211,925

#### **Forgiveness Amount Calculation:**

##### Payroll and Nonpayroll Costs

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10): \$ 280,481

Line 2. Business Mortgage Interest Payments: \$ -

Line 3. Business Rent or Lease Payments: \$ 14,400

Line 4. Business Utility Payments: \$ 3,005

##### Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions

Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3): \$ -

Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5: \$ 297,886

Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13): 100.00%

##### Potential Forgiveness Amounts

Line 8. Modified Total (multiply line 6 by line 7): \$ 297,886

Line 9. PPP Loan Amount: \$ 211,925

Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60): \$ 467,469

##### Forgiveness Amount

Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10): \$ 211,925

Remaining Loan Balance \$ -

# How will the taxability of forgiveness affect you?

**Maura Lange**  
*CPA, Partner*



# Tax Timing

- Tax free income but Notice 2020-32 invoked Section 265
  - Deductions associated with the production of tax-free income are not deductible
- Timing
  - **When do we have to take into account?**
    - *When expense is incurred?*
    - *When forgiveness app submitted?*
    - *When forgiven – by lender or by SBA?*
  - With Rev. Rul. 2020-27 that just came out on November 19<sup>th</sup> the IRS has made this a 2020 event if there is a reasonable expectation of forgiveness
  - Loans over \$2M now have to complete an additional Form 3509, better argument for not a reasonable expectation and therefore pushing to 2021

**NOTE:** The financial accounting treatment of PPP funding does not have an impact on the determination of tax treatment.

# What further guidance will be issued?





## Polling Question #2

# Debt or Revenue – Which is Correct for GAAP?

- Legal form of the PPP loan is debt
  1. Both business entities and not-for-profit entities can record it as debt.
  2. Other options for recording the PPP loan depend on the type of entity
    - *Business entities*
    - *Not-for-profit entities*



# Debt or Revenue – Which is Correct for GAAP?



- **Guidance for recording the PPP loan:**
  1. A loan under FASB *Accounting Standards Codification (ASC) 470, Debt*
  2. A government grant by analogy to International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*
  3. A grant by analogy in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue*

# Debt or Revenue – Which is Correct for GAAP?

- When would a debt liability be derecognized under ASC 470?
  1. The loan is partially or wholly forgiven and debtor is “legally released”
  2. The debtor pays off the loan
- Accounting entries if recorded as debt:
  1. Cash and Debt (and accrued interest)
  2. Debt and Gain on Extinguishment



# Debt or Revenue – Which is Correct for GAAP?



- **Business entity analogizes to IAS 20 to account for the PPP loan**
  1. Must be reasonable assurance that
    - *Conditions attached to the assistance will be met*
    - *The assistance will be received*
    - *Meet the conditions necessary for forgiveness*
  2. Earnings are recorded on a systematic basis as expense are incurred
  
- **Accounting entries if recorded under IAS 20 analogy**
  1. Cash and Deferred Income Liability
  2. Deferred Income Liability and Other Income (or Expense reduction)
  
- **Business entity analogizes to NFP accounting for the funds**
  1. PPP loan is in substance a grant that will be forgiven
  2. Follow guidance in FASB ASC 958-605 (see below)



# Debt or Revenue – Which is Correct for GAAP?



- **Not-for-profit entity that chooses not to follow FASB ASC 470**
  1. Follow FASB ASC 958-605
  2. Expects to meet the PPP's eligibility criteria
  3. Concludes that the PPP loan is a grant expected to be forgiven
  4. Record as a conditional contribution
  5. Recognized when the conditions are substantially met or explicitly waived
- **Accounting entries if recorded under FASB ASC 958-605**
  1. Cash and Refundable Advance
  2. Refundable Advance and Contribution Revenue (or Other Income)

# Other Financial Reporting Considerations



- Deferred taxes for C Corps – timing differences
- Accounting policy to be disclosed when PPP loans are material
- Impact to the F/S's
- Subsequent events
- Debt covenant violations/ waivers needed

# FAQs

# FAQs on FTEs

**What if I don't have as many full-time equivalent employees as I did before the pandemic? Can I not get full forgiveness?**



# FAQs on FTEs

- **FTE Reduction Exemptions**
  - Unable to rehire or hire someone similarly qualified **by Dec 31**
  - Fired for cause
  - Voluntarily resigned or asked for reduction
- **FTE Exemptions**
  - Rehire to Feb 15 level **no later than Dec 31**
  - Inability to return to same level of business activity due to COVID compliance

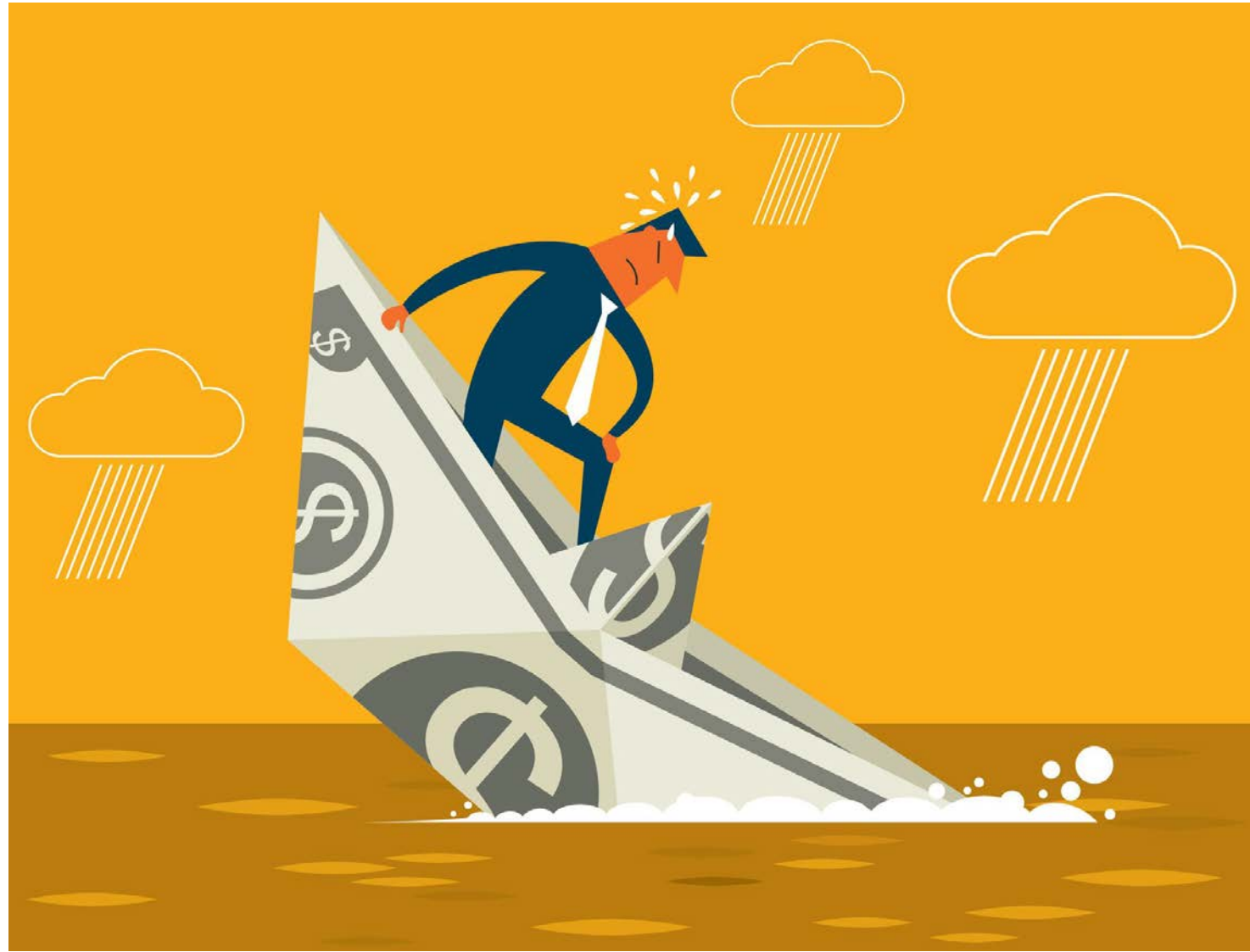


# FAQs: Forgiveness in 2020 or 2021

What do we do?



# FAQs: What if we don't get forgiveness?



# Tax Planning for 2020 and 2021

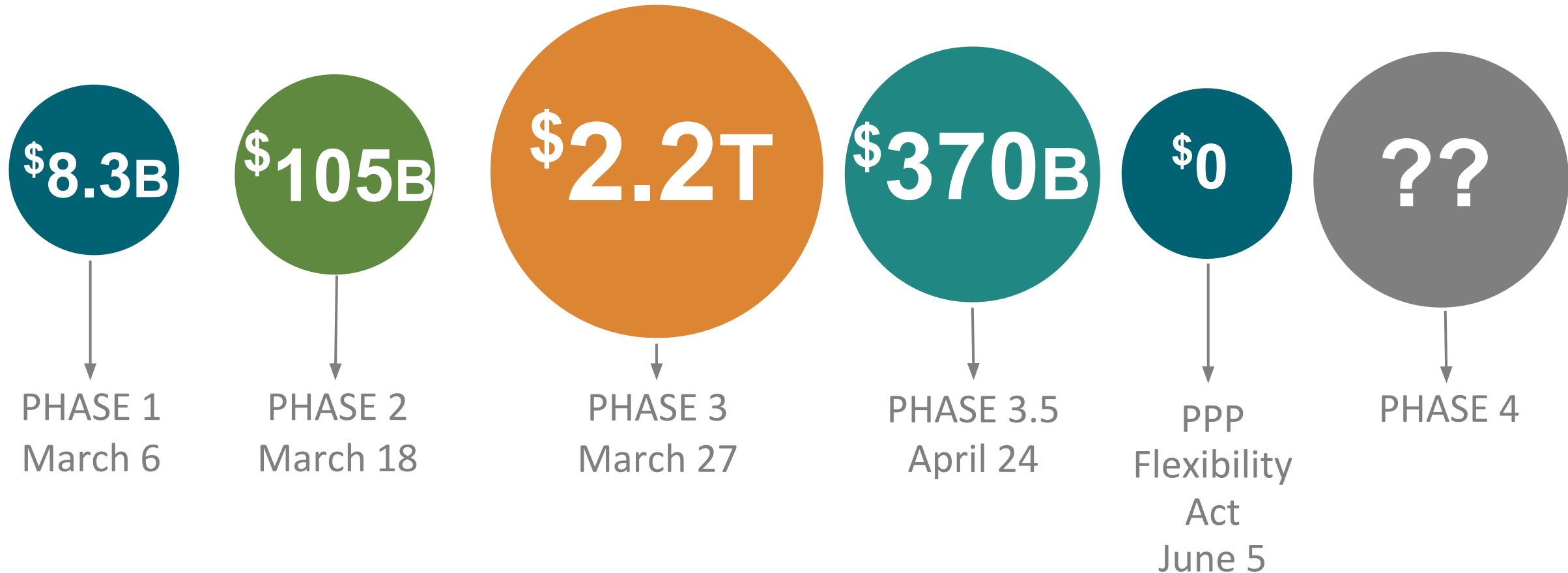




# Legislative Update



# 2020 Tax Legislation





# PPP Guidance



Follow Our Blog at  
[www.pbmares.com/insights](http://www.pbmares.com/insights)

The screenshot shows the PBMares Focus website. At the top left is the PBMares logo with the tagline "Your Future. Our Focus." and a navigation menu with links for SERVICES, INDUSTRIES, PEOPLE, RESOURCES, LOCATIONS, and CONTACT. The main header features a blurred image of a road from a driver's perspective, with the PBMares Focus logo and tagline "Insights for Smarter Decisions" overlaid. Below the header is a dark bar with "Insights" on the left and "Home / Insights" on the right.

The main content area displays three article teasers:

- Exempt Organization Inflation Adjusted Items for 2021**: Includes a photo of people in a building. Text: "Rev. Proc. 2020-45 provides annual inflation adjustments for more than 60 tax provisions, including those affecting exempt organizations. (authored by RSM US LLP)". Date: November 17, 2020. Categories: Not-for-Profit. Tags: Authored by RSM US LLP. Read More >
- New 2020 Form 1099-NEC**: Includes a photo of a 2020 Form 1099-MISC. Text: "NEW FORM 1099-NEC: The PATH Act accelerated the due date for filing Form 1099 that included nonemployee compensation (NEC) to January 31, and Treasury Regulations eliminated the automatic 30-day extension of time to file for forms that included NEC." Date: November 17, 2020. Categories: Tax, Business. Tags: 1099-MISC; Martha McCoy. Read More >
- Virginia Employment Laws Expanded to Require New Hire Reporting of Independent Contractors**: Includes a photo of oranges and a green apple. Text: "A new but perhaps little-known law in the State of Virginia requires that all employers, labor organizations, and hiring halls report information about newly hired independent contractors to the state's New Hire Center." (Text is partially cut off).

On the right side, there is a PBMares Focus logo, a green button for "VISIT OUR COVID-19 RESOURCE CENTER", and a "CONNECT WITH US:" section with a form for First Name, Last Name, Phone Number, and E-mail. Below the form is a "Submit Form" button. At the bottom right is a "SEARCH BY TOPIC:" section with a search input field and a magnifying glass icon, and an "EXPLORE POSTS BY CATEGORY:" section.

## Polling Question #3

# Questions



# Top Ten Strategies to Save You Money



On December 15<sup>th</sup>, PB Mares' tax experts presented the ten most practical strategies for 2020 to save you money – **if you implement by December 31**. Visit our website at [www.pbmares.com](http://www.pbmares.com) to watch a recording of this webinar.





# Visit our COVID-19 Resource Center

www.pbmares.com/  
covid-19-resource-center

## Transitioning from Survival to Recovery

Given the rapidly changing news ranging from the federal, state and local government agencies, we have created this resource center to make it easy to find the information most relevant to your family and business. The information is from a variety of sources including insights from our trusted team of tax and business professionals. We understand this is a difficult time and we're here to help navigate these uncertain times.

Visit our **COVID-19 SOLUTIONS** section for a list of services to help address common business challenges you may be facing.

Please view our **RECORDED WEBCASTS** and visit this section often for regular updates on news and information.

### PBMares COVID-19 Insights



**DCAA Audit Protocol during the COVID-19 Pandemic**  
November 10, 2020



**SBA Publishes Loan Necessity Questionnaire for PPP Borrowers**  
November 4, 2020



*Maryland Strong:*  
**ECONOMIC RECOVERY INITIATIVE**

**New \$250 Million "Maryland Strong: Economic Recovery Initiative"**  
October 29, 2020



**REBUILD VA GRANT FUND**

**Rebuild VA Grant Opens to More Businesses**  
October 29, 2020



**Final Guidance on Business Interest Expense Deduction Limitation Under Section 163(j) in the CARES Act**  
October 15, 2020



**How Businesses Should Be Preparing for Changes in State Tax Laws in 2020 and Beyond**  
October 14, 2020



**Municipal Fixed Income in a Post-COVID-19 World**  
October 7, 2020



**Congress: What We're Watching**  
September 9, 2020



**How the Payroll Tax Deferral Works for Employers**  
September 1, 2020

## CORONAVIRUS (COVID-19) RESOURCE LINKS

- > **PBMARES COVID-19 INSIGHTS**
- > **FEDERAL & STATE UPDATES**
- > **COVID-19 WEBINAR SERIES**
- > **RESOURCES FOR BUSINESSES**
- > **WORKING WITH US**
- ✉ **SUBSCRIBE TO OUR NEWSLETTER**

## CONTACT OUR QUICK RESPONSE TEAM.

### CONNECT WITH US:

\*Required

First Name\*  Last Name\*

Phone Number  -

E-mail\*

How can we help you?\*

**Submit Form**



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