

NFIB UPDATE

COVID-19 Webinar Series for Small Business

with Beth Milito and Holly Wade, NFIB



JANUARY 27, 2021

Special Guests – Paul Rhea, Rebekah Tucker, and
Daniel Schindler with Anders CPAs + Advisors

**Employee Retention Tax Credit, PPP Second Draw,
PPP Loan Forgiveness, and Q&A**



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- This is based on information available by 1/27/21.



Paul C. Rhea
Director + Strategic Growth



Rebekah J. Tucker, CPA
Supervisor + Tax



Daniel K. Schindler, CPA
Principal + Tax



Agenda

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- Covid-19 Small Business Resources
 - Anders CPAs + Advisors <https://anderscpa.com>
 - PPP Second Draw
 - PPP Loan Forgiveness
 - Employee Retention Tax Credit
 - Q&A
 - Send questions to info@nfib.org



The Paycheck Protection Program (PPP) has reopened!

MBA volunteers from our Small Business Strike Team are ready to help small businesses navigate the PPP loan application and forgiveness process.

1,200+ MBA students from 20 schools

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COVID-19 Resources

-
- [First PPP Draw Borrower Application \(Updated 1/8/21\)](#)
 - [Second PPP Draw Borrower Application \(Released 1/8/21\)](#)
 - [NFIB PPP Second Draw Tip Sheet](#)

 - [PPP Loan Forgiveness Form 3508S Application and Instructions for loans less of \\$150,000 or less \(Updated 1/19/21\)](#)

 - [PPP Loan Forgiveness Form 3508EZ Application Instructions](#)
 - [PPP Loan Forgiveness Form 3508EZ Application](#)

 - [PPP Loan Forgiveness Form 3508 Application Instructions](#)
 - [PPP Loan Forgiveness Form 3508](#)

 - [AICPA PPP Loan Forgiveness Calculator \(updated 11/16/20\)](#)
 - [NFIB Coronavirus Resources \(including webinar recordings\)](#)

 - [NFIB Employee Retention Tax Credit Tip Sheet](#)
 - [NFIB FFCRA Tax Credit Tip Sheet](#)
 - [NFIB Covid-19 in the Workplace Tip Sheet](#)



ANDERS
CPAs + ADVISORS

ERTC AND PPP

National Federation of Independent Businesses

EMPLOYEE RETENTION TAX CREDIT

EMPLOYEE RETENTION TAX CREDIT

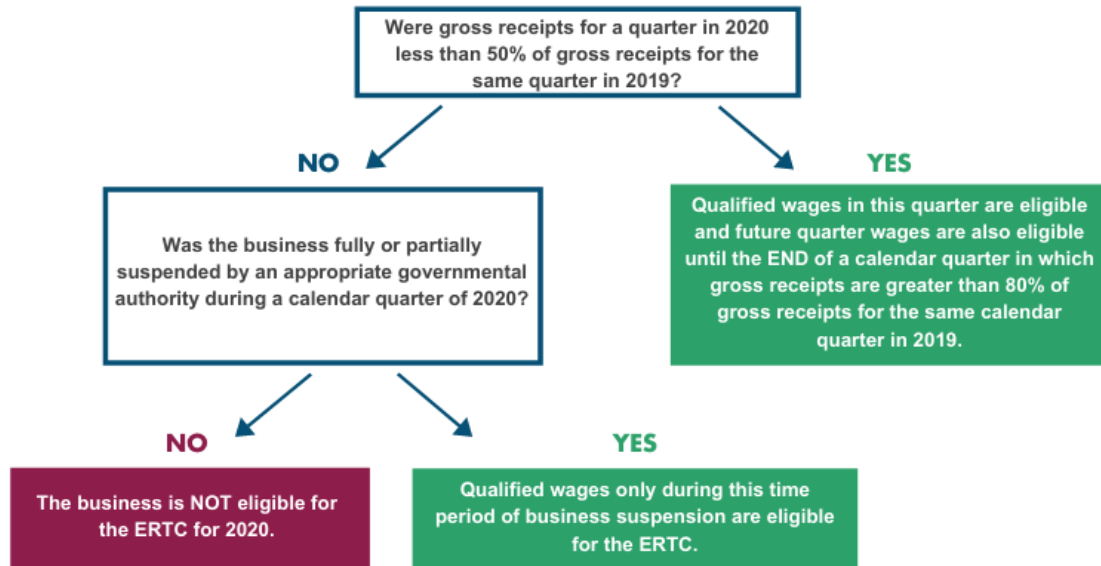
- Retroactive change: **eligible even if you received PPP loan**
- **Optimize benefits between ERTC and PPP**
 - What if PPP forgiveness application has already been filed?
- **Cannot use same payroll costs for ERTC, PPP, FFCRA**
- "Qualified" wages:
 - Wages & compensation paid to employees (subject to FICA taxes)
 - Includes allocable qualified health plan expenses
 - If full-time employees > 100 (or 500 for 2021), only wages paid to employees for time they are not providing services
 - If full-time employee count is 100 or less (or 500 for 2021), all wages paid to employees
 - **Do not include wages paid to related individuals (as defined by Section 51(I)(1))**
- Full-time employee test
 - Based on 2019 average monthly full-time employees (as defined in section 4980H)
 - **Full-time employee means an average of at least 30 hours per week or 130 hours in a month**
 - Aggregation rules apply – treat related entities as a single employer

EMPLOYEE RETENTION TAX CREDIT

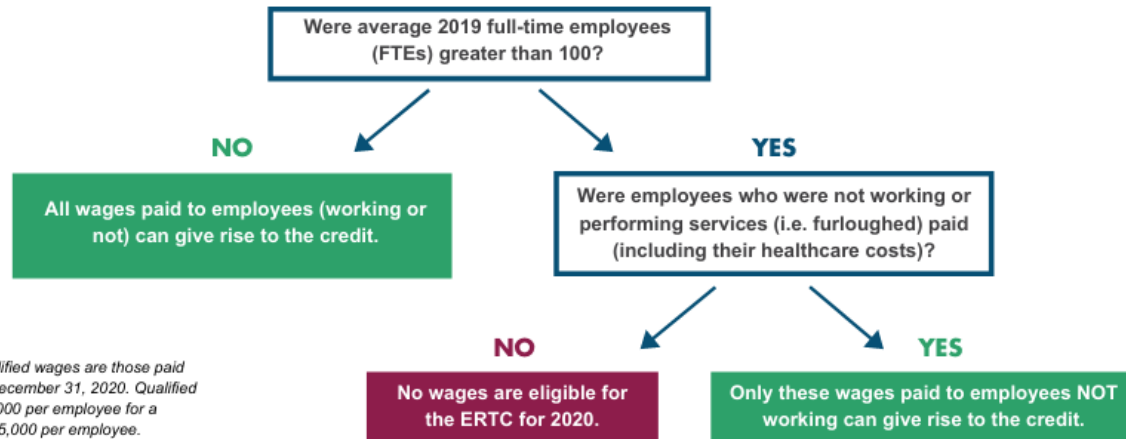
- Satisfy one of the following two:
 - 1. Required to fully or partially suspend business operations**
 - Due to orders from appropriate governmental authority order imposing restrictions AND
 - Orders limit commerce, travel, or group meetings due to COVID-19 AND
 - Orders affect the employer's operations of its typical operations
 - 2. Business experiences a significant decline (>50% for 2020 or >20% for 2021) in gross receipts during a calendar quarter when compared to same calendar quarter in 2019**
 - Special election for 2021 to use immediately preceding calendar quarter for gross receipts test
- 2020 credit:
 - **50% tax credit** on qualified wages up to \$10,000 per employee
- 2021 credit (for Q1-Q2):
 - **70% tax credit** on qualified wages up to \$10,000 per employee per quarter

EMPLOYEE RETENTION TAX CREDIT

2020 ELIGIBILITY



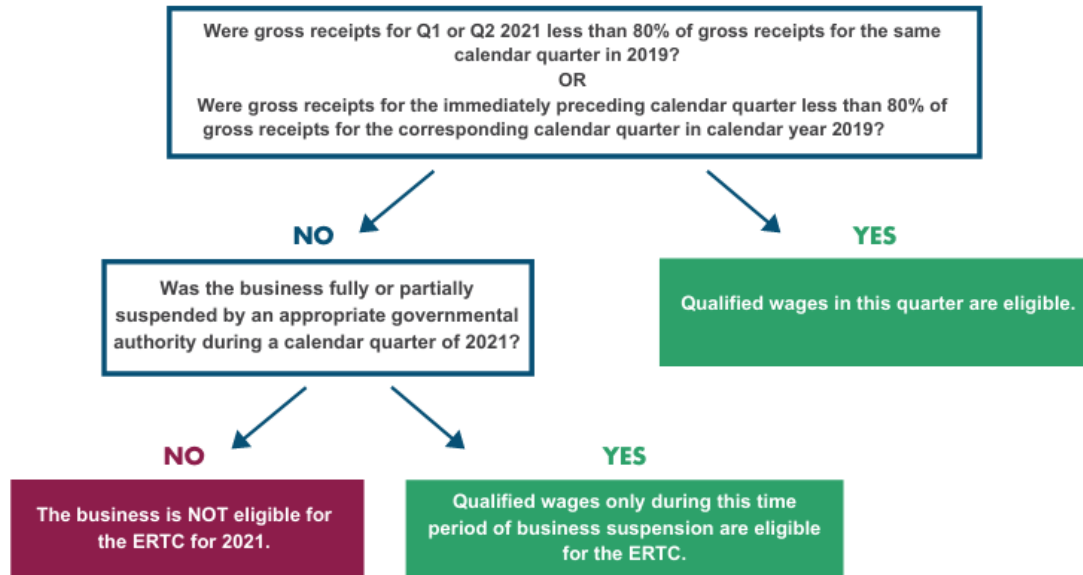
WHAT QUALIFIED WAGES ARE ELIGIBLE FOR THE ERTC?



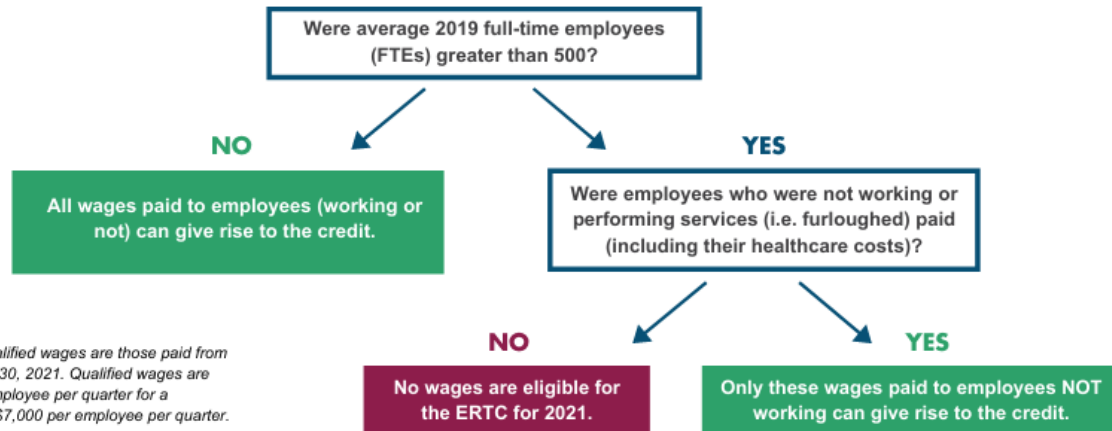
**For the 2020 ERTC, qualified wages are those paid from March 13, 2020 to December 31, 2020. Qualified wages are limited to \$10,000 per employee for a maximum 50% credit of \$5,000 per employee.*

EMPLOYEE RETENTION TAX CREDIT

2021 ELIGIBILITY



WHAT QUALIFIED WAGES ARE ELIGIBLE FOR THE ERTC?



**For the 2021 ERTC, qualified wages are those paid from January 1, 2021 to June 30, 2021. Qualified wages are limited to \$10,000 per employee per quarter for a maximum 70% credit of \$7,000 per employee per quarter.*

ERTC - 2020 CREDIT EXAMPLES

50% tax credit on wages up to \$10,000 per employee

30 employees each with \$10k qualifying wages - **tax credit of \$150k**

52 employees (25 employees each with qualifying wages of \$10k; 27 employees each with qualifying wages of \$3,700) - **tax credit of \$175k**

22 employees each with \$7k qualifying wages in 4th quarter only (for total of \$154k) - **tax credit of \$77k**

51 employees each with \$8k qualifying wages in 4th quarter only (for total of \$408k) - **tax credit of \$204k**

102 employees (20 employees each with qualifying wages of \$10k; 82 employees each with qualifying wages of \$8k) - **\$428k tax credit**

ERTC - 2021 CREDIT EXAMPLES

70% tax credit on wages up to \$10,000 per employee per quarter

30 employees each with \$10k qualifying wages/quarter - **tax credit of \$420k**

33 employees (21 employees each with qualifying wages of \$10k/quarter; 12 employees each with qualifying wages of \$3,700/quarter) - **\$356k tax credit**

22 employees each with qualifying wages of \$7k/quarter (for total of \$308k) - **tax credit of \$216k**

51 employees each with qualifying wages of \$8k/quarter (for total of \$816k) - **tax credit of \$571k**

102 employees (16 employees each with qualifying wages of \$10k/quarter; 4 employees each with qualifying wages of \$8,500/quarter; 82 employees each with qualifying wages of \$5k/quarter) – **tax credit of \$846k**

HOW TO RECEIVE ERTC BENEFITS

- **For 2020 ERTC:**

- File amended quarterly payroll report (941-X)
- If 4th quarter 941 is not yet filed, all qualifying wages can be included on 4th quarter 941

- **For 2021 ERTC:**

- Retain a corresponding amount of EFTPS payroll tax deposits for expected credit amount
- Wait until end of quarter to get refunded
- File Form 7200 for advance payment (only for employers with 500 or fewer full-time employees in 2019)
 - Capped at 70% of 2019 average quarterly wages
 - Do not reduce deposits AND request advance payment for same expected credit

FIRST DRAW PPP LOAN (PPP1) UPDATES

DEDUCTIBILITY OF FORGIVEN PPP LOAN EXPENSES PAID

- Under Notice 2020-32, the IRS determined that **any business expenses paid with the proceeds of a forgiven PPP loan cannot be deductible**
- The new law provides:
 - There is **no gross income due** to loan forgiveness on these items; and
 - Expenses paid with such amounts are **deductible** and produce normal basis adjustments
- The rule is retroactive to the tax year ending after the date of the original CARES Act

PPP, EIDL, SBA INCOME AND DEDUCTIONS

	Taxable on Federal Return?	Retain all Related Deductions?	Notes and Reference Information
State/Local Individual Grant	No	Yes	IRC Sec. 139(b)
State/Local Business Grant	Yes	Yes	Rev. Rul 2005-46 CARES FAQ's
Federal Non-PPP Grant	Yes	Yes	Rev. Rul 2005-46 CARES FAQ's
PPP Forgiveness (no dollar limits apply)	No	Yes	CAA Sec. 276
EIDL Grant or Advance	No	Yes	IRC Sec 90009 and CAA Sec. 278
EIDL Loan	No	Yes	SBA Making the first 6 months payments are not taxable and expenses remain fully deductible (CAA Sec. 278)

WHO CAN APPLY?

First time PPP borrowers may borrow under the original PPP1 terms with a few improvements and restrictions on eligibility

- 500 or fewer employees
- \$10 Million loan cap
- No public companies
- Certain 501(C)(6) eligible
- If you returned the funds and now meet new qualifications

WHAT DOES FORGIVENESS LOOK LIKE?

Current loan forgiveness

- New eligible expenses apply
- New choice of covered period applies – can choose a date between 8 and 24 weeks
- Some banks are in holding pattern with their portals, some are proceeding forward
- Loans less than \$150,000 require a one-page certification – still keep appropriate records

SECOND DRAW PPP LOANS (PPP2)

AM I ELIGIBLE?

- Businesses that have experienced a **25% or more reduction of gross receipts** in any 2020 calendar quarter as compared to the same quarter of 2019
- If you **weren't in business in 2019, or opened in 2020 prior to 2/15/20 then:**
 - Opened business in 2020 before 2/15/20, comparison period is 2nd, 3rd, or 4th quarter of 2020
 - Opened business in 4th quarter of 2019, comparison period is 4th quarter of 2019
 - Opened business in 3rd quarter of 2019, comparison period is 3rd or 4th quarter of 2019
- **300 employees or less**
- **Not a publicly traded company**
- **Your first draw loan proceeds must have been used before receiving second draw proceeds**
- **Expansion to the sports venues, entertainment venues, etc.**
- If more than **20% of company owned by, has significant operations in, or board affiliations with Peoples Republic of China, this would make you ineligible**
- **Forgiveness of PPP1 prior to PPP2 approval?**

WHAT CAN I SPEND IT ON?

- **Payroll costs, rent, mortgage interest, utilities**
- **Covered operational expenditures**
 - Payment for any business software or cloud computing service that facilitates business operations
 - Product or service delivery
 - The processing, payment or tracking of payroll expenses, human resources, sales and billing functions
 - Accounting or tracking of supplies, inventory, records and expenses
- **Covered property damage costs:**
 - Costs related to property damage and vandalism or looting due to public disturbances that occurred during 2020 that were not covered by insurance or other compensation

WHAT CAN I SPEND IT ON?

- **Covered supplier costs:**
 - Expenditures made by an entity for the supply of goods that are essential to the operations of the entity at the time at which the expenditure is made and is made pursuant to a contract, order or purchase order in effect at any time before the covered period with respect to the applicable covered loan, or with respect to perishable goods, in effect before or at any time during the covered period with respect to the applicable covered loan.
- **Covered worker protection expenditures:**
 - An operating or capital expenditure to facilitate the adaption of the business activities of an entity to comply with requirements established or guidance issued by HHS, the CDC, OSHA or any equivalent requirements established or guidance issued by a state or local government during the period beginning March 1, 2020, and ending the date on which the COVID-19 national emergency declaration expires.
 - This may include expenditures for personal protective equipment, physical barriers such as sneeze guards, and an indoor, outdoor, or combined air or air pressure ventilation or filtration system.
- **Retroactive to loans from PPP1 that have not yet applied for forgiveness**

HOW LONG DO I HAVE TO SPEND IT?

- Borrowers could originally choose either an 8-week or 24-week period
- The covered period begins on the date the loan proceeds are received by the borrower
- **New twist** – the borrower can now **choose an ending point** that falls between the 8- and 24-week period

HOW MUCH CAN I APPLY FOR?

- **2.5x average monthly payroll**
 - Based on 2019 calendar year average payroll or a 12-month period immediately prior to submitting application
- **Seasonal companies can use the average of any 12 weeks between 2/15/19 and 2/15/20**
 - New definition of seasonal company:
 - *Not in operation for more than 7 months of a calendar year*
 - *During the preceeding calendar year, had gross receipts for any 6 months of that year that were not more than 33.33 percent of the gross receipts of the employer for the other 6 months of that year*
- **3.5x average monthly payroll for business that have a NAICS code of 72** (primarily hospitality and restaurants)

REVISED SBA FORGIVENESS APPLICATIONS AND FORMS

3508 (STANDARD APPLICATION)

- Much the same as before – still required to provide all supporting documentation including schedule A for FTE and salary/wage reductions
- Keep in mind the six exceptions allowed for FTE reductions
 1. Rejected good faith written offer
 2. Fired for cause
 3. Voluntarily resigned
 4. Requested and received the reduction in hours
 5. Could not be filled by a similarly qualified individual
 6. Inability to return to previous levels of business activity due to official guidance

3508EZ APPLICATION

The Borrower did not reduce annual salary or hourly wages of any employee **by more than 25 percent** during the Covered Period compared to the most recent full quarter before the Covered Period.

- *For purposes of this statement, “employees” means only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000*

AND

The Borrower did not reduce the **number of employees or the average paid hours of employees** between January 1, 2020 and the end of the Covered Period.

- *Ignore reductions that arose from an inability to rehire individuals who were employees on February 15, 2020 if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020 (or, for a PPP loan made after December 27, 2020, the last day of the Covered Period)*
- *Also ignore reductions in an employee’s hours that the Borrower offered to restore and the employee refused*

3508EZ APPLICATION

The Borrower did not reduce annual salary or hourly wages of any employee **by more than 25 percent** during the Covered Period compared to the most recent full quarter before the Covered Period.

- *For purposes of this statement, “employees” means only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000*

AND

The Borrower was **unable to operate during the Covered Period at the same level of business activity as before February 15, 2020**, due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 (or, for a PPP loan made after December 27, 2020, requirements established or guidance issued between March 1, 2020 and the last day of the Covered Period) by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

3508S APPLICATION

- Designed for loans of **\$150,000 or less**
- Not required to show the calculation and documentation required (must keep in file for 4 years)
- If loan is more than \$50,000, then you must still provide FTE and Salary/Wage Reductions

3508D APPLICATION

- Borrowers' Disclosure of Certain Controlling Interest – does not need to be completed by all borrowers
- Covered Individual – **government official or spouse**
- Covered Interest – **20% or more ownership**

3509 APPLICATION

- Better known as the **Loan Necessity Questionnaire** (Promise to Congress)
- Gathers information to evaluate the good faith certification made by a business to determine need
- Loans **\$2 million or more**
- May choose to take a deeper dive

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- Visit our **COVID-19 Resource Center**:
<https://anderscpa.com/covid-resources>
- Need help navigating PPP? Learn more about our **Business Recovery Services**:
<https://anderscpa.com/advisory/covid-19-business-recovery/>

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