



ADOMA Presentation

PPP & COVID-19 Update

Presented by

Lewis R. Fisher, CPA – Automotive and Dealer Services Partner

The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP. Investment advisory services offered through Moss Adams Wealth Advisors LLC. Investment banking offered through Moss Adams Capital LLC.

Presenter

Lewis R. Fisher is an assurance partner based in the Orange County, CA office of Moss-Adams, LLP, and is the Assurance Services Leader for the firms Automotive and Dealer Services Group. He began his career working in retail finance at a domestic dealership, and then moved to the corporate office for the largest privately held automotive group in the United States. Lewis' focus is providing assurance and consulting services to automotive dealership clients, as well as other heavy truck and equipment dealers, including those with significant rental operations. He has experience directing all phases of audits and reviews, and has a mix of SEC filers and large privately held clients. He is a member of the American Institute of Certified Public Accountants; California Society of Certified Public Accountants, and serves on the Board of Advisors for the Marriott School of Accountancy at Brigham Young University.



Paycheck Protection Program: Overview

Paycheck Protection Program

- CARES Act – signed into law March 27th
- Program extended through August 8th
- SBA Lending program
- Used to cover payroll, mortgage interest, rent, utilities
- Intended to support businesses impacted by COVID-19 and incentivize businesses to retain employees



Loan count as of 6/30/20

Summary of PPP Approved Lending

Loan Count	Net Dollars	Lender Count
4,885,388	\$521,483,817,756	5,461

Lender Size	Lender Count	Loan Count	Net Dollars	% of Amount
>\$50 B in Assets	34	1,639,892	\$189,773,791,634	36%
\$10 B to \$50 B in Assets	89	739,912	\$100,724,547,553	19%
<\$10 B in Assets	5,338	2,505,584	\$230,985,478,569	44%

Totals reflect both rounds of PPP funding and cancellations through the report date. Cancellations include duplicative loans, loans not closed for any reason, and loans that have been paid off.

Source: <https://home.treasury.gov/system/files/136/PPP-Results-Sunday.pdf>



Loan size as of 6/30/20

Loan Size Distribution

Loan Size	Loan Count	Net Dollars	% of Count	% of Amount
\$50K and Under	3,262,529	\$58,652,110,621	66.8%	11.2%
>\$50K - \$100K	673,563	\$47,963,195,310	13.8%	9.2%
>\$100K - \$150K	291,019	\$35,626,300,937	6.0%	6.8%
>\$150K - \$350K	376,113	\$84,452,629,388	7.7%	16.2%
>\$350K - \$1M	199,456	\$113,442,814,223	4.1%	21.8%
>\$1M - \$2M	53,030	\$73,522,278,271	1.1%	14.1%
>\$2M - \$5M	24,838	\$73,841,502,099	0.5%	14.2%
>\$5M	4,840	\$33,982,986,907	0.1%	6.5%

Overall average loan size is approximately \$107,000.

86.5% of all loans were for less than \$150,000.

Source: <https://home.treasury.gov/system/files/136/PPP-Results-Sunday.pdf>



Loan by Industry as of 6/30/20

Industry by NAICS Sector

NAICS Sector Description	Loan Count	Net Dollars	% of Amount
Health Care and Social Assistance	506,263	\$67,356,500,071	12.92%
Professional, Scientific, and Technical Services	638,221	\$66,430,801,754	12.74%
Construction	466,221	\$64,568,137,994	12.38%
Manufacturing	229,591	\$54,002,922,769	10.36%
Accommodation and Food Services	367,502	\$42,099,336,178	8.07%
Retail Trade	450,181	\$40,355,657,949	7.74%
Other Services (except Public Administration)	531,572	\$31,145,678,051	5.97%
Wholesale Trade	167,237	\$27,726,783,463	5.32%
Administrative and Support and Waste Management and Remediation Services	240,947	\$26,482,972,198	5.08%
Transportation and Warehousing	191,609	\$17,088,399,318	3.28%
Real Estate and Rental and Leasing	245,697	\$15,631,026,225	3.00%
Finance and Insurance	168,462	\$12,205,158,596	2.34%
Educational Services	81,387	\$11,998,270,955	2.30%
Unclassified Establishments	222,096	\$9,901,564,953	1.90%
Information	69,106	\$9,264,147,642	1.78%
Arts, Entertainment, and Recreation	118,332	\$7,996,562,961	1.53%
Agriculture, Forestry, Fishing and Hunting	139,150	\$7,908,693,255	1.52%
Mining	21,570	\$4,510,946,138	0.87%
Public Administration	13,423	\$1,733,982,305	0.33%
Management of Companies and Enterprises	8,893	\$1,581,110,997	0.30%
Utilities	7,928	\$1,495,163,987	0.29%

PPP supports a diverse range of industries, indicating the breadth of its impact.

Source: <https://home.treasury.gov/system/files/136/PPP-Results-Sunday.pdf>



Paycheck Protection Program: Recent Updates

Recent Guidance:

PPP Flexibility Act

- Signed into Law June 5, 2020
- Treasury and SBA Joint Statement – June 8, 2020
- Re-opened Application Window July 4, 2020

SBA/Treasury Department – Interim Final Rule – Various Revisions

- May 22 Docket No. SBA – 2020-0032
- June 11 Docket No. SBA – 2020-0035
- June 16 Docket No. SBA -2020-0036
- June 16 Docket No. SBA-2020-0037
- June 22 Docket No. SBA-2020-0038

Loan Forgiveness Application

- SBA Form 3508 – Revised June 16, 2020
- SBA Form 3508EZ – Released June 16, 2020



Highlights:

PPP Flexibility Act, SBA Guidance, Revised Forgiveness Application

- Expanded covered period option (8-Weeks vs 24-weeks)
- Clarity on when to Apply for Forgiveness
- Updated required payroll cost percentage (60%/40%)
- Full-Time Equivalent rehire guidelines
- Updates to Forgiveness application deadline, loan repayment terms, and loan maturity
- Payroll Tax Deferral eligibility
- Clarification on compensation maximum for 24-week period
- Clarification on payroll costs for Owner-Employees and Self-Employed
- Form 3508EZ



Covered Period

- Extends covered period to the earlier of 24-weeks or December 31, 2020
- Those with loans originating before June 5, 2020 can make an election to keep 8-week covered period or use the new 24-week covered period
- Safe Harbor to restore FTEs is now December 31st
- Borrowers don't have to wait until December 31st to apply for forgiveness to use the FTE and Wage Safe Harbor



When to Apply for Forgiveness

- On or before loan maturity date - including before end of covered period
- Can submit loan forgiveness application before the end of the covered period
- If wage or salary is reduced more than 25% the reduction must be applied to the full covered period
- Early Application = Forfeit Salary and Wage Reduction Safe Harbor



Qualified Expense Requirements

For full forgiveness:

- Previous guidance required 75% of expenses be related to payroll costs. No more than 25% of the loan forgiveness could be related to non-payroll costs.
- New guidance requires at least 60% of the loan amount be used for payroll cost. And up to 40% of loan proceeds may be used for non-payroll costs.



Full-time Equivalent Rehire Guidelines

- The new date to restore FTE is December 31, 2020 **OR** the date forgiveness application is submitted
- New Safe Harbor exemptions for FTE:
 - The amount of forgiveness shall be determined without regard to a proportional reduction in the number of full-time equivalent employees if the applicant in good faith is able to document:
 - (i) an inability to rehire individuals who were employees of the eligible recipient on February 15, 2020; **and**
 - (ii) an inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020
 - or**
 - (B) is able to document an inability to return to the same level of business activity as such business was operating at before February 15, 2020, due to compliance with requirements established or guidance issued 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 during the period beginning on March 1, 2020, and ending December 31, 2020, related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID- 19.



Deadlines and Payment Deferral Dates

- Borrowers must apply for forgiveness within 10 months of the end of your covered period.
- For borrowers who fail to apply for forgiveness within 10 months of their covered period, the payments begin 10 months following the end of the period.
- Lenders have 60 days to make a forgiveness determination; then it goes to the SBA. The SBA has 90 days to make a forgiveness determination.
- Repayment of the non-forgiven portion of the loan is deferred until the SBA pays the lender the forgiven portion. Previously the deferral period was 6 months from the date of the loan.



Loan Terms

- For loans made **after** June 5, 2020, non-forgivable loan payback is a minimum 5 years
- For loans made **prior** to June 5, 2020, the payback period is still 2 years, unless mutually agreed upon by lender and borrower
- Interest rate remains 1%



Payroll Tax Deferral

- Delay payment of Employer Taxes
 - Allows Businesses to defer employer portion of social security tax (6.2%) from March 27, 2020 through December 31, 2020
 - 50% to be paid on 12/31/2021 and 50% to be paid on 12/31/2022
- Previously, once PPP forgiveness was granted, borrowers were disallowed the deferral. Borrowers are now eligible to continue deferrals regardless of loan forgiveness.



24-Week Compensation Clarifications

- Payroll costs up to \$100,000 of annualized pay per employee
 - = \$15,385 for 8-week period
 - = \$46,154 for 24-week period
- Self-Employed and Employee-Owner Compensation (based on 2019 net profit or 2019 wage)
 - = \$15,385 for 8-week period
 - = **\$20,833** for 24-week period



Owner Forgiveness

- Self-Employed Owners
 - Compensation Replacement = Line 31 of Schedule C
 - Non-Payroll Costs do not include Home Office Deductions
- Health Insurance Premiums
 - YES - C-Corp owners
 - NO - Sole proprietors, Partners, S-Corp owners
- Retirement Contributions
 - YES – C-Corp and S-Corp owners
 - NO – Sole proprietors, Partners



Owner Forgiveness Considerations

- Consider: Who is an “Owner/Employee”
 - Ownership attribution: parent, sibling, child
 - 100% ownership vs 1% ownership
 - Employee in 2019 but owner in 2020
 - New owner in 2020
 - What about limited partners? (Form 3508 uses the term “general partners”)
 - What about someone who owns stock options? What if the options haven’t vested yet?



Form 3508EZ

Three types of Borrowers qualify to use 3508EZ:

- Self-Employed with no employees
- Did not reduce salary or wages more than 25% AND did not reduce the FTE
- Did not reduce salary or wage more than 25% AND experienced reduction in business activity and was unable to operate at the same level of business as their pre-COVID operations (February 15th)



PPP Tax Impacts

Forgiveness Taxability

- CARES Act stated the forgiveness of the loan would **not be taxable income** for federal tax purposes
- Treasury issued guidance saying expenses related to the non-taxable income are **not deductible** - essentially making the forgiveness taxable.
- Congress has expressed that this was not their original intention and that they have plans to write law to change this.



Forgiveness Taxability Example

Book Income vs. Taxable Income

	Book Income (GAAP)		Taxable Income
Gross Receipts	50,000,000		50,000,000
PPP Loan Forgiven	2,500,000	-2,500,000	0
Total Income	52,500,000		50,000,000
Payroll Expense	10,000,000	-2,000,000	8,000,000
Rent Expense	1,500,000	-300,000	1,200,000
Utilities Expense	1,000,000	-200,000	800,000
Other Operating Expense	27,500,000		27,500,000
Total Expense	40,000,000		37,500,000
NET INCOME / TAXABLE INCOME	12,500,000		12,500,000



Timeline Considerations

- Amount of loan forgiveness most likely not determined until 2021
- Expenses incurred in 2020, forgiven in 2021
- Will 2020 returns need to be extended or amended?
- What about Fiscal Year Filers?
- Impact on 2020 Estimates



PPP GAAP Implications

PPP and COVID GAAP Implications

Loan

- PPP Loan is Recorded on Balance Sheet
- Recorded as 'Other Income' once forgiveness is granted or notice of forgiveness is issued

Grant

- Recorded as 'deferred income liability' on the balance sheet when received
- Recorded as Other Income or reduction of expenses when forgiveness is 'reasonably assured' (probable and all conditions are substantially met)

<https://www.aicpa.org/content/dam/aicpa/interestareas/frc/downloadabledocuments/tqa-sections/tqa-section-3200-18.pdf>



PPP and COVID GAAP Implications

Considerations

- Required Financial Statement Disclosures
- Watch Debt Covenants



Weighing the Options: 8-weeks vs 24-week Using a Short Period

Using the 8-week Period

PROS

- Ability to apply for forgiveness sooner (possible determination in 2020)
 - Reduction of debt on your financial statement.
 - Recognition of forgiveness income on your financial statement.
- Less uncertainty around additional guidance changes
- Less ongoing recourses dedicated to PPP planning
- Less FTE maintenance



Using the 24-week Period

Pros

- Greater opportunity to accumulate qualified costs for forgiveness
- Increased time for safe harbor planning
- Lenders and SBA application review process
- Section of payroll periods to submit for forgiveness
- Additional eligibility for noncash compensation
- Ability to apply for forgiveness later (and defer payments, if any)



Using the a shorter Period (less then 24 weeks)

Pros

- More Flexibility for borrowers (flexibility in dates)

Cons

- Salary and wage reductions are calculated over the full covered period
- Average FTE end dates isn't defined



Other Loan Implications



Loans in Excess of \$2 Million

- SBA is automatically auditing loans in excess of \$2M
- Don't check the box on Form 3508 unless it applies
- Loan “necessity”
 - Borrowers must certify the loan was a “necessity”
 - Loans less than \$2M deemed to have met safe harbor
 - If SBA determines loan wasn't “necessary” forgiveness will be denied and proceeds must be returned
 - “Necessity” not defined – document facts now!



Public Information Disclosure

Disclosures Released –

- Loans over \$150,000 business Name and Address
- Loans under \$150,000 other data disclosed but not Name or Address
- <https://home.treasury.gov/policy-issues/cares-act/assistance-for-small-businesses/sba-paycheck-protection-program-loan-level-data>



SBA FAQ's Issued August 4, 2020

The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP. Investment advisory offered through Moss Adams Wealth Advisors LLC. Investment banking offered through Moss Adams Capital LLC.

THANK YOU

