



## **Covid-19 Resources**

### **FAQs – December 1, 2020**

Getting you the answers to the many questions related to Covid-19 and its impact to you is our first priority. Things continue to evolve and change very rapidly, but please know that our team is working as quickly as possible to understand all that is taking place and going to the source for the answers. Our goal is to get you answers and information that is in **your** best interest and not get waylaid with distractions. Below are the most recent questions we have been fielding.

#### **Q1. Will the expenditures paid with the PPP funds be tax deductible?**

We have previously mentioned the possibility that expenditures made using PPP funds could be non-deductible on your tax return. As a refresher, cancellation of debt is generally considered taxable income. The CARES Act included a provision that amounts received under the PPP loan and later forgiven, if spent properly, would be excluded from taxable income. However, the IRS also has a long-standing rule that amounts spent using tax-exempt income cannot be claimed as a deduction.

Shortly after the passing of the CARES Act, the IRS reminded taxpayers of this rule and said that expenses qualifying for PPP forgiveness would not be deductible. Commentators quickly pointed out that this went against Congressional intent, with several members of Congress even saying as much.

Last week the IRS doubled down on their stance in releasing another notice stating that if you reasonably expect your PPP loan to be forgiven, you cannot claim a deduction for the expenses in 2020. This is the case whether your forgiveness application has been accepted, is being processed, or has not even been submitted by the end of the year. The one exception they allow is if you reasonably expect the loan to be forgiven, but your application is later denied.

This does not change the overwhelming opinion that Congress intended for the loan to be exempt from income and the related expenses to be deductible. However, it is now clear that it will take an act of Congress to overrule the IRS' position. If/when that will happen is anyone's guess. Several industry groups and lobbyists are already urging Congress to act quickly. You may also want to consider reaching out to your Congressional representatives.

#### **Q2. What does this mean for my 2020 taxes?**

Our tax projections have previously assumed that such expenses would be deductible **but noted the additional tax that would be due if they are not deductible.** Thus, without assistance from Congress, your taxable income could increase **by the additional amount noted on your tax projection.** For a quick estimate, you can take the amount of your PPP loan and multiply it by your marginal tax rate to come up with the additional amount of tax you could owe. The actual amount will depend on several other factors.

If you have received a Practice Analysis Report or a Tax Plan from us recently, your marginal rate and PPP amount will be included in the notes. If you have additional questions, please reach out to your account manager.

### Q3. Is it time to begin the PPP Forgiveness Application?

Given the new Revenue Ruling by the IRS, when you file for forgiveness or when the loan is forgiven will not affect the timing of tax as we assumed might be the case previously. The PPP funds received will be taxable in 2020 unless Congress acts to reverse this position. Therefore, one of the main reasons for holding off the application is gone and there seemingly is no consequence to applying now for those who want to.

For those with PPP loans of \$50,000 or less, Form 3508S has simplified the application and is essentially a one-page affidavit. Applying when ready is recommended.

If your total PPP loan is between \$50,000 and \$150,000, there remains the potential that additional legislation could result in a one-page form that is nothing more than an affidavit attesting to your qualification for forgiveness. You would still need to document your PPP numbers internally, but you would not have to submit them to your lender – just the one-page affidavit. You could continue to hold off in the hopes this change is forthcoming otherwise you can file now using Form 3508 or 3508EZ.

Loans in excess of \$150,000 you will need to file 3508 or 3508EZ. There is likely no change to the application process for these loan amounts. Applying when ready is recommended.

Following are the steps we recommend you take to begin this process:

1. Check with your lender to determine if they are accepting PPP Forgiveness Applications.
2. Ask your lender what their process will be for filing the application including if and how they will be assisting their clients in that regard.
3. Reach out to your payroll provider and obtain all available reports generated for your company. Most payroll companies are providing detailed PPP forgiveness application reports and tools for your use in filing the forgiveness application.
4. Determine which application you need to file:
  - a. [Form 3508S](#) and [Instructions](#) – This form may be used if your PPP loan is \$50,000 or Less.
  - b. [Form 3508 EZ](#) and [Instructions](#) – This form may be used if you meet one of the following criteria:
    - i. The practice did not reduce hourly wages or salaries for any employees during the covered period AND you did not reduce the number of employees or the average paid hours between 1/1/2020 and the end of the covered period. (See page 1 of instructions linked above for more details) or
    - ii. The practice did not reduce hourly wages or salaries for any employees during the covered period AND the practice 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 (i.e. you were forced to close).
    - iii. We believe that most practices will be able to file the Form 3508EZ but there could be a few practices that actually saw increased revenue during the covered period in which case they will need to file Form 3508 as listed below.
  - c. [Form 3508](#) and [Instructions](#) – Use this form and related schedules if you reduced hourly wage or salaries of your employees and/or you reduced the number of employees (see possible exemption).

5. Begin completing the appropriate as detailed in their respective instructions. **Note:** *Your bank's application process may be web-based or in some other format; however, we recommend filing out the SBA form first to keep on hand and to help you fill out your bank specific application.*
6. As you reach the point of calculating FTE and whether there was a reduction in FTE, consider the following:
  - a. There are 2 separate safe harbors that exempt certain borrowers from any loan forgiveness reduction based on a reduction in FTE employee levels. The safe harbors are listed below.
    1. The Borrower is exempt from the reduction in loan forgiveness based on a reduction in FTE employees described *in the application* if the Borrower, in good faith, is able to document that it was unable to operate between February 15, 2020, and the end of 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, 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 for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.
    2. The Borrower is exempt from the reduction in loan forgiveness based on a reduction in FTE employees described above if both of the following conditions are met: (a) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (b) the Borrower then restored its FTE employee levels by not later than December 31, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.
  - b. If you believe you qualify under the first safe harbor, we recommend you document this in your records by printing a profit and loss statement from your QuickBooks file that documents your decrease in income (collections) during this time frame. A side by side comparison of February 15, 2020 through the end of your covered period versus the same time frame in 2019 should suffice.
  - c. If you believe you qualify under the second safe harbor, we recommend you document this by printing payroll reports that shows your employees, their gross pay and hours prior to February 15, 2020 versus the time frame beginning when you return to the practice through the date of filing the forgiveness application or the covered period.
7. Don't forget to document and include compensation to owners as part of your payroll costs as part of your forgiveness application. This is especially important for Partners and Schedule C filers since Self-Employment income is not a deductible business expense to begin with. Using PPP funds on this type of eligible expenditure will not affect your 2020 tax. Remember, for a 24-week Covered Period, this amount is capped at \$20,833 (the 2.5-month equivalent of \$100,000 per year) for each individual or the 2.5-month equivalent of their applicable compensation in 2019, whichever is lower.

**NOTE:** If you anticipate needing our assistance, please know that we will be prioritizing year-end accounting and tax work in early 2021 and may not be able to prepare or assist with PPP forgiveness until after the April 15<sup>th</sup> tax deadline. If you want to complete your application as soon as possible, doing so in December is recommended. However, there is also no consequence to waiting until Spring or early Summer of 2021 to apply either.

**Dental Group, LLC** - We continue to work both in the office and remotely. Our meetings will be done via teleconference and or online collaboration. If you plan to drop off documents, please call ahead to coordinate a time when we will be in the office as there is no safe place to leave documents at the door.

If you have any questions, please do not hesitate to contact us directly at (425) 216-1612.