



## **Covid-19 Resources**

### **FAQs – April 2, 2020**

Getting you the answers to the many questions related to Covid-19 and its impact to you is our first priority.

Things are changing very quickly, and we seem to have little time to analyze updates before new and sometimes contradictory information becomes available. Please know that we are working as hard and fast as we can to understand all that is taking place and going to the source for the answers – not just the latest opinion offered in an email blast. Sometimes what you hear on the news or in webinars are just highlights, but the details matter and often that is what we need to digest. Our goal is to get you answers and information that is in **your** best interest and not get waylaid with distractions.

To keep you informed of the changing environment, we intend to send an update to you in the form of FAQs. This may be as frequently as daily but most definitely as often as will be useful to you.

#### **Q1 – What do you think the approach and strategy should be for obtaining loans for my dental practice?**

**Answer:** Gather as much cash as possible from all sources to plan for the worst-case scenario (a protracted extended closure). Tactics – Apply for all loans available and attempt to reduce all expenses – practice and personal. Best case scenario you pay back loans very early and the interest paid is simply an insurance premium to hedge against the worst-case scenario. From there, we then want to utilize as much “free money” in the form of grants and or forgiven loans as possible. Our primary goal is to see you back in the practice working.

#### **Q2 – The number one question everyone is asking – when do I apply?**

**Answer:** There are two factors to consider:

- 1) When do you need the money?
- 2) When will the funds run out?

Ideally, you want to get the PPP loan when you reopen your practice, but no later than 6/30/2020. This would allow for you to fund the first 8 weeks of payroll costs, rent, and utility costs while revenue is less than 100%. This would allow you to be fully staffed and operational once it is recommended for you to reopen. Unfortunately, we don't know right now if the funds will be available at that time or how long the loan process will take. The Treasury Secretary said he will work to replenish the funds if they run out, subject to Congressional approval.

We don't believe the funds will run out immediately, but we also don't believe a business should wait until May to get a loan. And, if you need funds now to stay afloat, then you should factor that into the timing.

Don't panic – even if your bank gave you a large list of items to obtain, the list might be significantly shorter today due to overnight developments. Contact your lender, gather your information, and work with your bank to figure out when financing will be available. Nothing official, but we have heard from some banks that they will be able to allow for the loan to be processed, funds reserved, and become available upon request (prior to 6/30).

### Q3 – How do I go about filing?

**Answer:** We are fortunate to have direct daily access to two representatives of the ADA and contacts at the leadership levels with lenders across the US. As unfortunate as this whole situation is, it is also a political issue. **We learned that last night and as expected, the Treasury Department has issued a new PPP Application and “Interim Final Rules”.** Click here: [PPP Application](#)

Only SBA approved banks are accepting applications for the PPP loan. Many banks are working with their existing clients first or only. And many banks are still scrambling to be able to accept and process these applications. If you have not, reach out to your banker and get **the forms they are requesting** as they will be underwriting and approving your loan. You can begin to gather the information and be as ready as possible to submit when ready to do so.

### Q4 – Wait! I thought I only had 8 weeks to spend the money. If I get it too soon and am not back at work, what happens?

**Answer:** Some banks are saying they will be able to hold funds and not disburse to control timing – the eight-week period does not begin until your loan has been “originated”. Check with your bank on this. However, if you do submit now under that guidance, please make sure you get that in writing with emphasis, as we are not clear if that is or will be possible.

Pros and Cons of applying sooner versus later:

- April 10<sup>th</sup> is the day when they will open up the program to additional employers and businesses and there is concern that the funds (\$349 Billion) may run out very quickly
- The 8-week time frame relates only to the forgiveness of a portion of the loan. In the end, **the most important thing is that you have funds to pay the expenses you are incurring – and if we can optimize debt forgiveness in the process all the better!**

### Q5 – So what information do I need?

**Answer:** I would first check with your lender as they may have some data to share and since they underwrite the loans as they may request specific items. Otherwise, begin with the following items:

- a. Detailed annual payroll data and reports for 2019. Also, the major payroll providers are already working on a report that will gather this for you – be sure to check with them.
- b. Copies of payroll tax reports filed with the IRS and the Washington State Employment Security Department for the entire year of 2019.
- c. Documentation reflecting the health insurance premiums paid by your business under a group health plan (employer paid amount only)
- d. Documentation of all employer-paid retirement plan funding for you and your employees during 2019 (matching, profit sharing, pension (do not count individual deferrals).

**Q6 – How does this calculation of payroll work to determine the amount I can borrow on the PPP loan?**

**Answer:** The short answer, based on the today’s new PPP application is 2.5 multiplied by your 2019 average monthly payroll plus the proceeds of any EIDL loan received<sup>1</sup>. That seems easy enough, however, there are a few steps (simplified last night). Here is the computation:

2019 Gross Annual Payroll	\$
Reduce by the Amount of Individual Salaries Over \$100,000	\$
Add: 2019 Employer Paid Group Health Insurance	\$
Add: Employer Paid During 2019 (including prior year payments made in 2019) Retirement Benefits	\$
Add: Payment of State Unemployment Tax Assessed on 2019 wages and salaries	\$
If not operating as a corporation (i.e. filing Schedule C or Partnership Return) add Self-Employment Income not to exceed \$100,000. (Do not include S Corporation net Earnings)	\$
<b>Total Adjusted Payroll</b>	\$
<b>Average Adjusted Payroll (Total Divided by 12)</b>	\$
<b>Max PPP Loan: Average x 2.5 (not to exceed \$10 Million)</b>	\$

**Q7 - My partnership is owned by two S corps, do the S corps need to apply for their own loan?**

**Answer:** The S corporation owners receive a W-2 through their own PC and those wages can’t be included in the partnership application. The S corporation owner can file its own PPP application or an EIDL application with similar results.

**Q8 - My partnership is owned by two individuals; do I include their K-1 income in payroll costs?**

**Answer -** The partnership should also include the K-1 income from box 14A of the Form K-1 (limited to \$100k per partner)

**Q9 – What do I need to do with the money when it comes?**

**Answer:** We recommend establishing a new bank account intended to hold these funds. At that point we will have more recommendation as to how to properly handle disbursements and tracking of the use of funds, including optimizing the debt forgiveness aspect of the PPP Loan.

**Q10 – Do I as a practice owner qualify for the new Enhanced Unemployment?**

**Answer:** The CARES Act greatly expanded unemployment benefits to include an additional \$600 per week to everyone on unemployment, extended the length of benefits to a maximum of 39 weeks and expanded benefits for self-employed individuals. The Washington State Employment Security Department (ESD) (per their website 4/2/2020) is still evaluating details and updating their system to accommodate the changes. There has been much confusion as to who qualifies as a self-employed individual. We are under the impression that this is only for independent contractors or those who only employ themselves without any employees but it has yet to be determined. If you believe you might qualify, they recommend you wait to apply for your own claim until the system has been updated or it could delay your claim. You can sign up for updates with the ESD on their COVID-19 information page: <https://esd.wa.gov/newsroom/covid-19>

<sup>1</sup> We are not aware to date of any EIDL loan funds received. Therefore, this box should be zero in almost all cases.

## Q11 – Can I take the Payroll Retention Credit and still file for the PPP / 7(a) loan?

**Answer:** This new payroll tax credit provided under the CARES Act is for wages paid starting March 13<sup>th</sup> for businesses that were fully or partially suspended due to COVID-19 during the calendar quarter or can show their gross receipts are below 50% of the comparable quarter in 2019. Once the employer's gross receipts go above 80% of a comparable quarter in 2019, they no longer qualify after the end of that quarter. The credit is limited to 50% of the first \$10,000 in total qualified wages, including health benefits, paid to each eligible employee for all calendar quarters (maximum credit of \$5,000 per employee). Note: An employer that receives a Paycheck Protection Loan **cannot** not claim Employee Retention Credits.

For those not able to obtain a Paycheck Protection Loan, you can claim this credit when filing the quarterly employment tax returns (Form 941) beginning with the second quarter and will need to work closely with your payroll company. The tax credit for wages paid from March 13 – March 31 will be included on the second quarter 941 since the first quarter 941 tax form was not updated in time. You can be immediately reimbursed for the credit by reducing required deposits of payroll taxes that have been withheld from employee wages and also have the option to receive an advance payment if your tax deposits are not sufficient to cover the credit by submitting Form 7200 with the IRS. We do not recommend doing this as you may not qualify for the credit and will have to pay back any reimbursements or advances. Additional questions and answers can be found on the IRS website: <https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act>

**Dental Group, LLC** - We will be working both in the office and remotely in the coming weeks. Our meetings will be done via teleconference and or online collaboration. If you plan to drop off tax 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.

Our focus in the coming weeks will be on finishing tax returns such that if a refund is due to you, we can get that as quickly as possible; we are of course continuing to monitor developments so that we can be a resource to you in making decisions relative to your practice and personal finances. If you have any questions, please do not hesitate to contact us directly at (425) 216-1612.