



Covid-19 Resources

FAQs – March 9, 2021

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 – Am I eligible for the ERC and how can I claim it?

When the CARES Act was originally enacted last spring, you were not allowed to qualify for a PPP loan and the Employee Retention Credit (ERC). Consequently, dentists had to decide which might be more valuable. The PPP loan became a tax-free gift as long as you qualified for full forgiveness. On the other hand, the 2020 ERC could provide a credit (dollar for dollar reduction in tax) up to \$5,000 per employee – but, the amount of the credit would be subtracted from deductible payroll. So, the net value of the ERC is up to \$5,000 per employee but then subtract the \$5,000 from deductible expenses at your marginal tax rate. For example, if your marginal tax was 32% you have to add back \$1,600 for a net credit of \$3,400. Based on this most dentists opted for the PPP loan.

Fast forward to December 2020 when the Consolidated Appropriations Act, 2021 (CAA, 2021) was passed and enacted. Part of this new law removed the prohibition of qualifying for a PPP Loan **and** qualifying for the ERC credit. For those that qualify for the ERC credit and have not yet filed for forgiveness this may result in the ability to maximize the ERC credit and PPP by picking and choosing which payroll expenses are used for one and the other. If you have not filed for forgiveness, you will want to hold tight for a little while longer so that your potential for ERC credits can be maximized. If you have filed for forgiveness, you may still qualify for the ERC – but you likely have lost some flexibility in the picking and choosing of which payroll applies to PPP versus ERC.

Qualifying for ERC: In order to qualify you must have less than 100 average employees in 2019 and (1) in 2020 you must have suffered a 2020 quarter in which your revenues (collections¹) was more than 50% lower than the corresponding quarter of 2019 or (2) been subject to a full or partial closure because of government orders related to Covid-19 (Washington’s closure of dental offices last spring satisfies this requirement).

Undoubtedly, the second quarter of 2020 (April, May and June) is the likely candidate. If 2020 second quarter revenues (collections) are more than 50% of 2019 you do not qualify under that rule – the fall back is that you would qualify but only for wages paid during your 8-week closure period. This might benefit a practice that continued paying wages through this time period.

¹ Collections may include grants including EIDL, Delta and others. We are awaiting guidance on this question.

If you do qualify for the credit in the second quarter, then available wages (subject to wages used for PPP forgiveness) will include the third-quarter of 2020 as well (July, August, September). If that quarter is more than 80% of its 2019 counterpart then you are done.

The ERC credit is claimed through filing an Amended Form 941 – Employer’s Federal Quarterly Tax Return. At this point, the rules indicate that this is the only way to claim the credit and may take several months to be processed by the IRS. This would also impact your 2020 practice income requiring amending the return (and amending both the entity and personal return) for 2020 or possibly extending. The tax credit reduces your deductible wages and will increase your income tax liability. A tax credit of \$40,000 at the 32% bracket would increase your income tax by about \$12,800. Overall, you would still net \$27,200 by perusing this credit.

Given the potential size of the credit (for example up to \$40,000 for a staff of eight (*not including specified related individuals of owners*)) we can imagine millions or possibly 10’s of millions of amended returns will flood the IRS. We are hopeful that the government might change their minds and allow the credits to be taken on 2021 Forms – alleviating this problem and avoiding millions of amended returns (but we are not holding our breath).

COMING EARLY MAY: We will be rolling out a service to our clients for PPP/ERC beginning in May. The process of optimizing the ERC and the PPP is the outcome; and, we will have more on this special project and its estimated cost at that time. Since PPP forgiveness deadlines will start to roll about mid-summer, we will want to have this wrapped up in advance so that PPP forgiveness can be applied before required PPP loan payments are due (10 months after the covered period which presumably was the 24-week period starting the day you received the original PPP loan proceeds).

Summary:

1. **If you have not – do not file yet for PPP Forgiveness (*If you have filed, we will review options with you in May as you still may be able to qualify for the ERC*)**
2. **Determine if you qualify under the less than 50% criteria for the 2nd quarter of 2020. You can run a Profit and Loss Report from QuickBooks for April 1 through June 30, 2020 and then customize the report to show the prior year as a way to determine if revenue dropped by more than 50%.**
3. **Wait until May when we will be available to assist you with this detailed and strategic project**

Q2 – Is the HHS Provider Relief Fund Reporting Portal Open Yet? And other related questions.

Questions remain about the HHS Reporting Requirements and the use of the funds. The following will provide an update and overview:

- HHS is encouraging recipients of the funds to establish a reporting account by registering at the website [here](#).
- HHS is still working to update the reporting requirements to be consistent with the Coronavirus Response and Relief Supplemental Appropriations Act passed in late December.
- The HHS funds received are taxable income to the recipient.
- The funds are a grant (i.e., you don’t pay them back unless you do not use them as intended).
- We encourage you to read the [terms and conditions](#) which include details on how the payment may be used including:

*...the Payment will only be used to prevent, prepare for, and respond to coronavirus, and that the Payment shall reimburse the Recipient only for **health care related expenses or lost revenues** that are attributable to coronavirus.*

Note that the income tax you will pay on the grant itself will also count toward using up the grant amount. To estimate – determine your Marginal Tax Bracket and multiply by the total grant amount. For example, if you are in the 34% bracket – we would think that 34% of your required grant spending is covered!

...the recipient certifies that it will not use the Payment to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse

Based on what is currently provided, it suggests to us that if you can show a loss of revenue (collections) for 2020, the HHS funds can be used to reimburse for said loss.

Q3 – What do I do with my updated WA Employment Security Rate Notice?

Be sure to provide the rate change notice to your payroll company. The rate applies retroactively to 1/1/2021. For Gusto, you can simply edit your rate by indicating a correction for the 1/1/2021 rate. If you need assistance with this, contact your account manager at the Dental Group. Note: Any tax already collected to date at the higher rate will be reconciled with your first quarter tax return prepared by your payroll company and will either be applied toward next quarter or refunded to you.

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.