



FINANCIAL BLIND SPOT
HIDDEN THREATS. CANDID SOLUTIONS.

Getting the most out of your PPP dollars

— We are not leaving any stone
unturned! —

Presented by: **Wilfrid Baptiste**

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Who will benefit from this presentation?

1. For- and Non-Profit Companies
 - a. PPP recipients
 - b. EIDL recipients
 - c. Local loans & grants recipients
2. Advisors
 - a. Accountants
 - b. Attorneys
 - c. Insurance professionals
 - d. Consultants
3. Forward-thinking business owners and professionals



Getting the most out of your PPP dollars

Sharing the answers we have

Raising the questions that (still)
need to be answered

PPP recap

EZ Forgiveness Form

Expanded Forgiveness Form

Documentation requirements

Calculations

Completing the application

Rules for self-employed

In case you missed it...

Q&A



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13 Federal Stimulus Actions That May Help You, Your Family, & Your Business

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EIDL Masterclass

Everything you need to know about the Disaster Loan Program

An aerial view of a dense city skyline, likely Manila, Philippines, featuring numerous high-rise buildings and a mix of modern and older architecture. The image is overlaid with a semi-transparent blue filter. The text "Main Street Lending Program" is centered in white, with a horizontal line underlining the word "Lending".

Main Street Lending Program

How Financial Blind Spot Helps

VALUATION

What is my company worth?

Planning is approximate at best if business value is unknown

VALUE DRIVERS

PROTECTION

How do I protect it?

Transition from “insurance buying” to Risk Management

CASH RESERVES

GROWTH

How do I grow sustainably?

Making yourself operationally irrelevant is the only sustainable way to scale

CASH FLOW

TRANSFER

How do I transfer out of my business?

Liquidation?
Insider sale?
3rd Party sale?

CONTINUITY PLANNING



PPP Recap

- 1st round of \$349 billion, depleted in 13 days
- 2nd round of \$310 billion. Approximately \$130 billion still available
 - A \$60 billion tranche has been reserved for smaller lenders
 - Big companies have returned their PPP loans after outcry
 - Uncertainty around the rules has had a cooling effect on demand
- PPP Flexibility Act made the program more attractive and gave more options to loan recipients
 - Changes to covered period, use of loan proceeds, and non-forgiven balance repayment terms, among others



PPP Recap

What is “covered period”?

- If you received your PPP loan before June 5th, 2020, you retain the option of an 8-week (56 days) covered period
- If you received your PPP loan on or after June 5th, 2020, your covered period is the 24 week (168 day) period beginning on the PPP Loan Disbursement Date



PPP Recap

ISSUE	PPP	PPP Flexibility Act
Covered Period	PPP loans must be spent within 8 weeks of a borrower receiving the loan; June 30th is the end of any 8 week covered period	PPP loan funds can be spent within 24 weeks, or until Dec. 31, 2020, whichever comes earlier. Existing borrowers retain the 8-week option
75/25 Mandate on Payroll and Non-Payroll Expenses	Non-payroll expenses are limited to 25% of overall PPP loan expenditures if the borrower seeks maximum forgiveness	Non-payroll expenses are limited to 40% of overall PPP loan expenditures if the borrower seeks maximum loan forgiveness
Loan Terms	Two-year loan terms for PPP loans at 1% fixed rate. While loan payments are deferred for 6 months, interest accrues over this period	New PPP loans, disbursed after enactment of the Act, will have five-year loan terms. For previous PPP loans, the Act notes that nothing will “prohibit” lenders and borrowers from “mutually agreeing to modify the maturity terms of a covered loan.”



PPP Recap

ISSUE	PPP	PPP Flexibility Act
Loan Forgiveness Reduction for FTE Employee Retention or Recruitment	Regulatory guidance sets a 4-part test for borrowers seeking maximum loan forgiveness if they could not hire back all FTEs: 1) Written offer for same wage/hours, 2) Rejection of offer, 3) Employer maintains these records, 4) Employer submits report of this rejection to state unemployment office within 30 days	Loan forgiveness will not be reduced due to a lower number of FTEs if an employer 1) is unable to rehire a previous employee, 2) shows an inability to hire “similarly qualified employees” before Dec. 31, 2020, or 3) shows an inability to return to the “same level of business activity” as prior to Feb. 15, 2020 due to new standards for sanitation, social distancing, or any other safety requirements
Payroll Tax Deferment	PPP borrowers are not able to deduct payroll tax expenses that would otherwise be tax deductible if they use the PPP loans to cover the expense and the tax is forgiven	PPP borrowers will have full access to payroll tax deferment



PPP Forgiveness: EZ Form

In order to be able to use the 3-page EZ Loan Forgiveness Form, you must be able to satisfy one of the following three (3) criteria:

1. You are a self-employed individual, independent contractor, or sole proprietor who:
 - had no employees at the time of the PPP loan application and
 - did not include any employee salaries in the computation of average monthly payroll in your PPP application



PPP Forgiveness: EZ Form

2. Compared to the period between 1/1/2020 and 3/31/2020, for employees earning under 100K in 2019:
 - You did not reduce annual salary or hourly wages of any employee by more than 25 percent during your Covered Period, AND
 - You did not reduce the number of employees or the average paid hours of employees between 1/1/2020 and the end of the Covered Period.
 - **Exemption 1:** Ignore reductions that arose from an inability to rehire individuals who were employees on 2/15/2020 if you were unable to hire similarly qualified employees for unfilled positions on or before 12/31/2020
 - **Exemption 2:** ignore reductions in an employee's hours that the Borrower offered to restore and the employee refused.



PPP Forgiveness: EZ Form

3. Compared to the period between 1/1/2020 and 3/31/2020, for employees earning under 100K in 2019:
 - You did not reduce annual salary or hourly wages of any employee by more than 25 percent during your Covered Period, AND
 - You were 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 3/1/2020 and 12/31/2020, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.



What can be included (EZ Form)

Cash Compensation

- The sum of gross salary, gross wages, gross tips, gross commissions, paid leave (vacation, family, medical or sick leave, not including leave covered by the Families First Coronavirus Response Act), and allowances for dismissal or separation paid or incurred during the Covered Period or the Alternative Payroll Covered Period
- For each individual employee, the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000, as prorated for the Covered Period.



What can be included (EZ Form)

Cash Compensation

- For an 8 week Covered Period, that total is \$15,385 per individual. For a 24 week Covered Period, that total is \$46,154 (this applies to non-owner employees)
- You can only include compensation of employees who:
 - were employed by the Borrower at any point during the Covered Period
 - whose principal place of residence is in the United States.



What can be included (EZ Form)

Payroll Costs

- Payroll costs are considered paid on the day that paychecks are distributed, or the Borrower originates an ACH credit transaction
- Payroll costs are considered incurred on the day that the employee's pay is earned.
- Payroll costs incurred but not paid during the Borrower's last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if paid on or before the next regular payroll date



What can be included (EZ Form)

Payroll Costs

- Otherwise, payroll costs must be paid during the Covered Period (or Alternative Payroll Covered Period)
- Count payroll costs that were both paid and incurred only once
- Include only payroll costs for employees whose principal place of residence is in the United States.



What can be included (EZ Form)

Employee Benefits

- Employer contributions for employee health insurance, including employer contributions to a self-insured, employer-sponsored group health plan, but excluding any pre-tax or after-tax contributions by employees.
 - Do not add employer health insurance contributions made on behalf of a self-employed individual, general partners, or owner-employees of an S-corporation, because such payments are already included in their compensation.



What can be included (EZ Form)

Employee Benefits

- Employer contributions to employee retirement plans, excluding any pre-tax or after-tax contributions by employees.
 - Do not add employer retirement contributions made on behalf of a self-employed individual or general partners, because such payments are already included in their compensation, and contributions on behalf of owner-employees are capped at 2.5 months' worth of the 2019 contribution amount.



What can be included (EZ Form)

Employee Benefits

- Employer state and local taxes paid by the borrower and assessed on employee compensation (e.g., state unemployment insurance tax), excluding any taxes withheld from employee earnings.



What can be included (EZ Form)

Owner Compensation

- Enter any amounts paid to owners (owner-employees, a self-employed individual, or general partners).
- 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.
- For an 8-week Covered Period, this amount is capped at 8/52 of 2019 compensation (up to \$15,385).



What can be included (EZ Form)

Other Allowable Expenses

- Enter the amount of business mortgage interest payments paid or incurred during the Covered Period for any business mortgage obligation on real or personal property incurred before February 15, 2020. Do not include prepayments.
- Enter the amount of business rent or lease payments paid or incurred for real or personal property during the Covered Period, pursuant to lease agreements in force before February 15, 2020.



What can be included (EZ Form)

Other Allowable Expenses

- Enter the amount of business utility payments paid or incurred during the Covered Period, for business utilities for which service began before February 15, 2020 (electricity, gas, water, telephone, transportation, or internet access)
- An eligible non-payroll cost must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period. Eligible non-payroll costs cannot exceed 40% of the total forgiveness amount. Count non-payroll costs that were both paid and incurred only once.



What can be included (EZ Form)

Required Payroll Documentation

- **Bank account statements or third-party payroll service provider reports** documenting the amount of cash compensation paid to employees.
- **Tax forms (or equivalent third-party payroll service provider reports)** for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
 - Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
 - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- **Payment receipts, cancelled checks, or account statements** documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount.



What can be included (EZ Form)

Required Non-Payroll Documentation

- **Business mortgage interest payments:** Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
- **Business rent or lease payments:** Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
- **Business utility payments:** Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments



PPP Forgiveness: Expanded Form

Remember the certifications you made in order to be able to use the 3-page EZ Loan Forgiveness Form? In particular:

- Did not reduce annual salary or hourly wages of any employee by more than 25 percent during your Covered Period
- Did not reduce the number of employees or the average paid hours between January 1 and the end of the Covered Period other than documented reductions due to inability to rehire or find qualified employees.
- Unable to operate between February 15th and the end of the covered period at the same level of business activity as before February 15th due to COVID-19 related compliance.



PPP Forgiveness: Expanded Form

FTE Safe Harbor Deadline

- Moved from 6/30 to 12/31
- Two “Good Faith” Tests
 - Inability to rehire employees who were employed on February 15, 2020
 - Inability to hire similarly qualified employees for unfilled positions by 12/31/2020



PPP Forgiveness: Expanded Form

FTE Safe Harbor Exemptions

- When you cannot find qualified employees for open positions : This could be due to concerns over safety requirements etc.,
- When you cannot restore your operations to previous levels due to social distancing, sanitation, or customer safety needs.
 - Requirements set by the Department of Health and Human Services, Center for Disease Control and Prevention or OSHA



PPP Forgiveness: Expanded Form

Getting Full Forgiveness

To get 100% of your loan forgiven:

- You must spend 100% of your loan proceeds on payroll expenses (at least 60%) and eligible proceeds during the eligible period.
- Your FTE and certain salaries and wages on December 31st, must equal those on February 15th
 - If you spend less than 60% of loan proceeds on payroll, your forgiveness amount is reduced proportionally.



PPP Forgiveness: Expanded Form

Employer Share of Payroll Taxes

- PPP recipients can now defer payment of payroll taxes collected on behalf of the government. They are to be paid back over the next 2 years:
 - 50% by the end of 2021
 - 50% by the end of 2022.

EIDL Advances

- If you received an advance, this amount will be reduced from your forgiveness amount



PPP Forgiveness Reduction

You will not get full forgiveness if:

- You did not spend at least 60% of loan proceeds on eligible payroll expenses and any remaining balance on eligible non-payroll expenses
- You reduced your average FTE headcount during your covered period, compared to the reference period
- You reduced your employees' pay by more than 25% (employees making under \$100,000/year).



PPP Forgiveness Reduction

Exemptions for FTE Reduction:

- Any positions for which the Borrower made a good-faith, written offer to rehire an employee during the Covered Period or the Alternative Payroll Covered Period which was rejected by the employee
- Any employees who during the Covered Period or the Alternative Payroll Covered Period
 - were fired for cause,
 - voluntarily resigned, or voluntarily requested and received a reduction of their hours



PPP Forgiveness Reduction

FTE Reduction:

- If the average number of FTE employees during the covered period or the alternative payroll covered period is less than during the reference period, the total eligible expenses available for forgiveness is reduced proportionally by the percentage reduction in FTE employees.
- For example, if a borrower had 10.0 FTE employees during the reference period and this declined to 8.0 FTE employees during the covered period, the percentage of FTE employees declined by 20 percent and thus only 80 percent of otherwise eligible expenses are available for forgiveness.



PPP Forgiveness Reduction

FTE Calculation:

- Full-time equivalent employee means an employee who works 40 hours or more, on average, each week. The hours of employees who work less than 40 hours are calculated as proportions of a single full-time equivalent employee and aggregated.



Filling out the Expanded Forgiveness Form

Expanded Loan Forgiveness Documents Required to be submitted:

- PPP Loan Forgiveness Calculation Form
- Schedule A
- The Worksheet to Schedule A and
- Representations and Certifications Page.

All records relating to the loan must be maintained for six years after loan forgiveness or the loan is paid in full and you must permit inspection of those documents on request.



Filling out the Expanded Forgiveness Form

Completing the application (Sequence is pages 4, 3, 1, and 2):

- Start with the Worksheet to Schedule A, then complete Schedule A, then complete Loan Forgiveness Application Form and finally the representations, certifications and signature page.
- The Worksheet to Schedule A:
 - computes eligible compensation for each employee, including any with reduced salaries,
 - caps compensation at \$100K,
 - establishes the total employee status for the Covered Period or Alternate Covered Period,
 - Uses FTE/payroll \$ determine any reduction in loan forgiveness.
- Tables 1 & 2 in the Worksheet A determine the salaries/wages paid and hours worked for each employee during the 24-week period.



Filling out the Expanded Forgiveness Form

Worksheet A (needed to complete schedule A):

- Included in employer payroll costs are: salary, wages, commission, cash tips, vacation pay, hazard pay, bonuses and parental, family, medical or sick leave & severance pay. Essentially all cash contribution and employers payroll costs for health insurance, retirement plans and local, state taxes.
- Excluded are salaries in excess of \$100K, employees outside the US, sick or family leave under the Families First Act.
- Also Excluded for worksheet to Schedule A are:
 - Independent contractors–these are not eligible as employees
 - Owner (W-2) employees, Self Employed & partners - these add their information directly to Schedule A (Line 9).



Filling out the Expanded Forgiveness Form

Full Forgiveness (FTE Safe Harbor) Criteria:

The new PPP Flexibility Act has substantially increased the flexibility in eligibility for loan forgiveness. Three choices/criteria to establish FTE Reduction Calculation – Choose one:

- You had no reduction in employees or average paid hours,
- Safe Harbor #1 – Unable to operate between February 15th and the end of your Covered Period at the same level of business activity as before February 15th
- Safe Harbor #2 – If you satisfy the FTE requirements as shown on the Worksheet for Schedule A (Tables 1 & 2).



Filling out the Expanded Forgiveness Form

Full Forgiveness (FTE Safe Harbor) Criteria (continued):

- Average FTE Calculation may still be needed on the Loan Forgiveness Application Schedule A Worksheet. If so, there are two allowed methods:
 - Add the total employee hours and divide by 40.
 - Calculate every employee who worked 40 hours per week or more at as 1.0, Use 0.5 for all employees who worked less than 40 hours per week. Add it up to determine FTE.
- Total Loan Forgiveness is primarily based on the use of the PPP loan funds – at least 60% for payroll and not more than 40% for rent, utilities and mortgage interest.



Filling out the Expanded Forgiveness Form

Self-Employed Individuals/Sole Proprietors:

- Are eligible to use the new EZ Loan Forgiveness Application if you meet certain conditions. Can use the Revised Loan Forgiveness Form.
- Forgiveness is related to payroll costs at 8/52 of line 31 of the individual's 2019 Schedule C if you choose the 8-week Covered Period or 2.5 months of 2019 compensation if you use the 24-week Covered Period.
- Amounts paid to user of Form EZ do not exceed \$15,385 per individual for those choosing the 8-week Covered Period and \$20,833 for those choosing the 24-week Covered Period.



Filling out the Expanded Forgiveness Form

Self-Employed Individuals/Sole Proprietors (Continued):

- Amounts paid to these individuals during the 8 or 24-week covered period or alternate covered period, are totaled and added to Line #9 of Schedule A if using the longer Revised Loan Forgiveness Form.
- For ALL PPP loan forgiveness applications – The lender must respond to the borrower with a decision within 60 days.
- The SBA then has 90 days to review the application and “pay” the bank, who in turns applies the payment to the Borrower’s loan balance



8 weeks or 24 weeks?

Advantages of an 8-week testing period:

1. Faster processing of forgiveness application
2. Easier to meet FTE levels over 8 weeks
3. Use SBA's rules and interpretations in effect at the time of forgiveness application
4. Impact on forgiveness uncertainty on future financing opportunities



8 weeks or 24 weeks?

Advantages of a 24-week testing period:

1. More of the loan proceeds can be used on eligible expenses
2. More certainty on guidance and legislation
3. Use loans on balance sheet as negotiating tool
4. More time to plan



In Case You Missed It

The **Consumer Bankers Association** and **Bank Policy Institute**, in a co-signed letter, have called on Congress to automatically forgive Paycheck Protection Program (PPP) loans under \$150,000.

- Although that would cover around 85 percent of the loans, it would only cover about 26 percent of PPP loan dollars, the two groups said.
- The two organizations said it would save more than \$7 billion for business owners.
- With servicing costs expected to be relatively flat by loan size (~\$150 annually) and a lending margin of a 0.65% (1% APR less 0.35% cost of government funds), banks will run a deficit on that smallest 60% of loans to the tune of about half a billion dollars.



In Case You Missed It

- The fact that PPP loan forgiveness is excluded from taxable income at the federal level does not necessarily mean that the forgiveness is excluded from income for state tax purposes.
- States generally follow federal treatment of debt discharge, but only if they conform to the most recent version of the Internal Revenue Code. For example, NY, MO, and CO (among others) have “rolling conformity”.
- Many other states have what is called static or fixed date conformity, but California’s conformity date is still 2015, Wisconsin’s is 2017 , and Massachusetts’ individual (but not corporate) income tax still uses the IRC as it existed in 2005.



Questions we can help you answer

- If you still have PPP money:
 - How much longer is it going to last? How do I maximize it?
 - Will I need other financing after my PPP runs out?
 - What programs are available? Which one(s) makes the most sense for my business?
- If you have already spent all your PPP money (or are close)
 - What does my forgiveness picture look like?
 - What's my cashflow situation?
 - Do I need to look at other options?
- If you have received stimulus money from multiple programs
 - What's the most effective way to spend those dollars?
 - How does one affect the other
 - What are some potential future options?

How Financial Blind Spot Helps

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