Jodi Ann Ray, CAE
TXCPA President & CEO

FACEBOOK LIVE FRIDAY

January 8, 2021

Patrick J. Reilly, CPA
Partner, Lane Gorman Trubitt LLC

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PPP – ROUND 2

$284.5 billion

Availability through March 31, 2021

Second draw loans for hardest hit borrowers

PPP eligibility extended to 501(c)(6) and destination marketing organizations, restaurants, certain news organizations and housing cooperatives

Simplified loan forgiveness process for borrowers with PPP loans of $150,000 or less

Business expenses paid for with the proceeds of PPP loans **are tax deductible**, consistent with congressional intent in the CARES Act.

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APPROACH TO PPP2

New opportunities for firms

Firms can put in place capabilities and processes to support PPP2

Provide clients lender options

Position firm to be able to monitor and support forgiveness process

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SBA GUIDANCE - JANUARY 6, 2021

Interim Final Rule on Paycheck Protection Program
"Business Loan Program Temporary Changes; Paycheck Protection Program as Amended" consolidates the rules for PPP forgivable loans for first-time borrowers and outlines changes made by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, P.L. 116-260.

Interim Final Rule on Second Draw Loans
"Business Loan Program Temporary Changes; Paycheck Protection Program Second Draw Loans" lays out the guidelines for new PPP loans to businesses that previously received a PPP loan.

SBA Guidance on Accessing Capital for Minority, Underserved, Veteran and Women Owned Business Concerns
Accept PPP loan applications only from community financial institutions for at least the first two days when the PPP loan portal reopens. $25B set aside for **borrowers with 10 or fewer employees or loans less than $250K** in low-income areas

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PPP ROUND 2: SECOND DRAW LOANS

Second draw loans for hardest hit borrowers

- Generally 300 or fewer employees
- For businesses with multiple locations, not more than 300 emp. per location
- Have used or will use the full amount of their first PPP loan
- 25 percent gross receipts decline in any quarter in 2020 compared to same quarter in 2019
  - EIDL and PPP aren't included in gross receipts
- **Cap of $4M** for businesses that are part of a single corporate group (***1-6-21 IFR***)

The bill allows borrowers that returned all or part of a previous PPP loan to reapply for the maximum amount available to them.

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GROSS RECEIPTS

- **All revenue** in whatever form received or accrued (in accordance with the entity's accounting method) from whatever source including:
  - Sales of products or services
  - Interest, dividends
  - Rents
  - Royalties
  - Fees
  - Commissions
  - Reduced by returns and allowances

- **Note**: If **forgiveness amount** of a First Draw PPP Loan is recorded in calendar year 2020 revenue it is **excluded from the gross receipts comparison**

- **IFR provides an alternative approach to calculating decline.**
  - A borrower that was in operation in all four quarters of 2019 can compare total annual receipts in 2020 to annual receipts in 2019 rather than doing a quarter-by-quarter comparison.
  - Will submit copies of annual tax forms substantiating the revenue decline

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SECOND DRAW PROCESS

- Borrower to submit to the lender **SBA Form 2483 SD** (Paycheck Protection Program Second Draw Borrower Application Form) **not yet available**

- Lender will submit a request through SBA's site to increase the PPP loan amount, even if the loan has been fully disbursed.
  - In no event can the increased loan amount exceed the maximum PPP loan amount ($10 million for an individual borrower or $20 million for a corporate group).
  - Borrower must provide the lender with required documentation to support the calculation of the increase.

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SECOND DRAW CERTIFICATIONS

- Has not and will not receive another Second Draw

- Realized a reduction in gross receipts in excess of 25% relative to the relevant comparison time period.

- Has used or will use first draw only for eligible expenses on or before the expected date of disbursement of the Second Draw PPP Loan

- Not an ineligible entity

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PPP 2: FIRST TIME BORROWERS

Eligibility

- Businesses with 500 or fewer employees eligible for other SBA 7(a) loans
- Sole proprietors, independent contractors, and eligible self-employed individuals
- Not-for-profits, including churches
- Any business that averages less than 500 employees per physical location that has a NAICS code starting with 72 (accommodation and food services)

$35B
reserved for first time borrowers

- Adds 501(c)(6) and destination marketing organizations
  - 300 or fewer employees
  - Subject to lobbying threshold (15% or receipts, 15% of activities, $1M)
- Adds certain news organizations (with limitations)
- Adds housing cooperatives

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PPP INELIGIBILITY

Businesses that are ineligible for PPP

- **NEW** - entity that has permanently closed (***per 1.6.21 IFR on second draw loans***)
- Businesses not in operation on February 15, 2020
- **Entities receiving Shuttered Venue Operator Grants**
- **Publicly traded businesses**
- **Lobbying organizations**
- Hedge funds or private equity firms
- Entities affiliated the People's Republic of China
- Those registered under the Foreign Agents Registration Act
- If President, Vice President, head of an Executive department, Member of Congress or their spouse own at least 20% of any class of equity
- Entities listed in **13 C.F.R 120.110** , unless otherwise made eligible
- Household employers
- In bankruptcy
- Other

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PPP ROUND 2: LOAN TERMS

- Round 2 maximum loan amount is $2 million
- Loan amount = 2.5x average total monthly payroll costs except for accommodations and food services (NAICS Code 72) who are eligible for 3.5x average total monthly payroll costs
- 60/40 cost allocation between payroll and non-payroll
- **Covered period between eight and 24 weeks beginning on date of loan origination**
- Covered costs that are the same as Round 1: payroll costs, covered mortgage interest, rent, utility payments
- **Payroll costs clarified to include group life, disability, vision or dental insurance**

- Covered costs now also include:
  - **Worker protection expenditures**: PPE and facility modification costs
  - **Supplier costs**: Essential to the recipient's current operations
  - **Operations expenditures**: Software or cloud computing services, HR/Accting
  - **Property damage costs**: related to 2020 public disturbances not covered by insurance or other compensation

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PPP ROUND 2: SIMPLIFIED LOAN FORGIVENESS

- For loans **$150,000 or less**
  - Sign and submit a one-page form and attest to compliance
    - Loan amount
    - # of employees retained
    - Estimate of loan amount spent on payroll
- Retain your records
    - Document revenue decline for eligibility
    - 4 years of employment
    - 3 years for all others

SBA has 24 days to prepare the form

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PPP ROUND 2: LOAN FORGIVENESS

- For loans between **$150,000 and $2,000,000**
  - No requirement to submit documentation of FTEs, payroll and pay rates (including tax filings) or canceled checks, receipts, etc. for nonpayroll costs
  - Retain relevant records related to employment for four years and other records for three years
  - Lender review limited to completeness

Note: Detailed descriptions of newly eligible expenses are in Sec. 304 (b) (2), page 2043

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PPP ROUND 2: DEDUCTIBILITY

IRS Revenue Ruling 2021-02 issued January 6

- Business expenses paid with forgiven PPP loans are tax deductible. This supersedes previous IRS guidance.
- The COVID-19 relief bill clarifies that "no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied, by reason of the exclusion from gross income provided" by Section 1106 of the CARES Act (which has been redesignated as Section 7A of the Small Business Act). This applies to loans under both the original PPP and subsequent PPP loans.
- State adoption still to be determined and will have to be analyzed on a state-by-state basis. Beware of potential basis timing issues.

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CLARIFICATION ON AGENT FEES

- Borrowers can hire advisors to support PPP2 applications
- Lender and Agent fees
  - A lender is only responsible for paying fees to an agent for services for which the lender directly contracts with the agent. If a borrower has knowingly retained an agent, such fees will be paid by the borrower.
- **Lender fees in IFR**
  - (1) Loans of less than $50,000: lesser of 50% of the loan principal or $2,500;
  - (2) loans of more than $50,000 and not more than $350,000 equal to 5%;
  - (3) loans of more than $350,000 equal to 3%
- **Agent fees in IFR**
  - Loans up to $350,000: 1%;
  - More than $350,000 and less than $2,000,000: .5%; $2,000,000+: .25%

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ENGAGEMENT LETTERS

- Contact your professional liability insurance carrier
- If CPA will be paid an agent fee, disclose to the client in the "Fees" section of the engagement letter
- CPA Loan Portal will also disclose agent fees to client
- Risk alert issued by the AICPA Member Insurance Program highlights risks and offers risk management tips related to PPP loan services and provides **links to sample engagement letters created and shared by CNA**

Risk Alert: Round Two Paycheck Protection Program Loan Application Assistance and Forgiveness Application Assistance Services

Information provided by AICPA

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NEXT STEPS AND BEST PRACTICES

- Once the PPP program is open loan applications are expected to be accepted until March 31, 2021.
- The SBA must establish regulations on small business support no later than 10 days after the legislation is signed into law.
- Advanced preparedness
- Open dialogue with bank on their anticipated participation in program and have a Plan B

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CPA Business Funding Portal

Provided by CPA.com, a subsidiary of AICPA

End-to-end Solution for PPP Business Relief Advisory Services:

- Loan Applications (PPP second round)
- Loan Forgiveness Applications (PPP first round)

Features include*:

- Payment of **agent fees** on funded applications
- Automatic data imports (ex. bank statements, payroll)
- Integration with the AICPA's loan calculator
- Send application to client for review and e-signature
- Firm-wide collaboration and custom defined user roles
- **New** Accountant Directory
- Integrated PPP guidance from AICPA PCPS (coming soon)

** Subscription required for enhanced features*

CPALoanPortal.com

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QUESTIONS?

Submit your questions in the comments section

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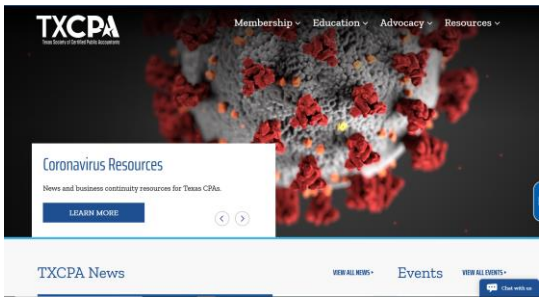
KEEPING YOU INFORMED



Facebook: @TXCPAs
LinkedIn: Texas Society of CPAs
Twitter: @TXCPAs
Instagram: @TexasSocietyofCPAs
Exchange: exchange.tx.cpa

- Watch for our email communications
- Watch our social media channels
- Visit our Coronavirus Resources page: **http://bit.ly/cpacovid**
- Visit TXCPA Exchange to share experiences and ask questions with fellow members

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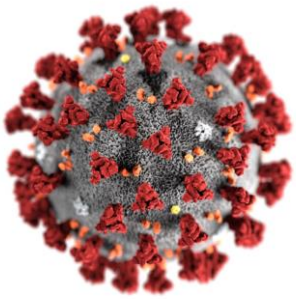
DEEP DIVE INTO NEW CORONAVIRUS RELIEF



Jan. 13 | 2 hours CPE | 2 p.m. CT

NEW two-hour program will give you an in-depth look at the critical issues included in the CAA and provide guidance to help you be best prepared to advise your clients and employers as they navigate the relief options available.

REGISTER HERE: http://bit.ly/113deepdive

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PROFESSIONAL ISSUES UPDATE

Professional Issues Update – FREE for Members
Jan. 19 | 2 hours CPE | 10 a.m. CT

One hour of the webcast will be "Light at the End of the Tunnel," an economic update presented by KC Matthews, executive vice president and chief investment officer for UMB Bank.

The second hour of the webcast will focus on the latest updates directly related to the CPA profession.

FIND MORE UPCOMING PROGRAMS AT WWW.TX.CPA

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JOIN US ONLINE JANUARY 26-27
ADVOCACY DAY AND THE MIDYEAR BOARD OF DIRECTORS AND MEMBERS MEETING
WITH VIRTUAL LEGISLATIVE VISITS SCHEDULED FOR THE AFTERNOONS OF JANUARY 26, 27 AND 28
Register: bit.ly/adaymyb

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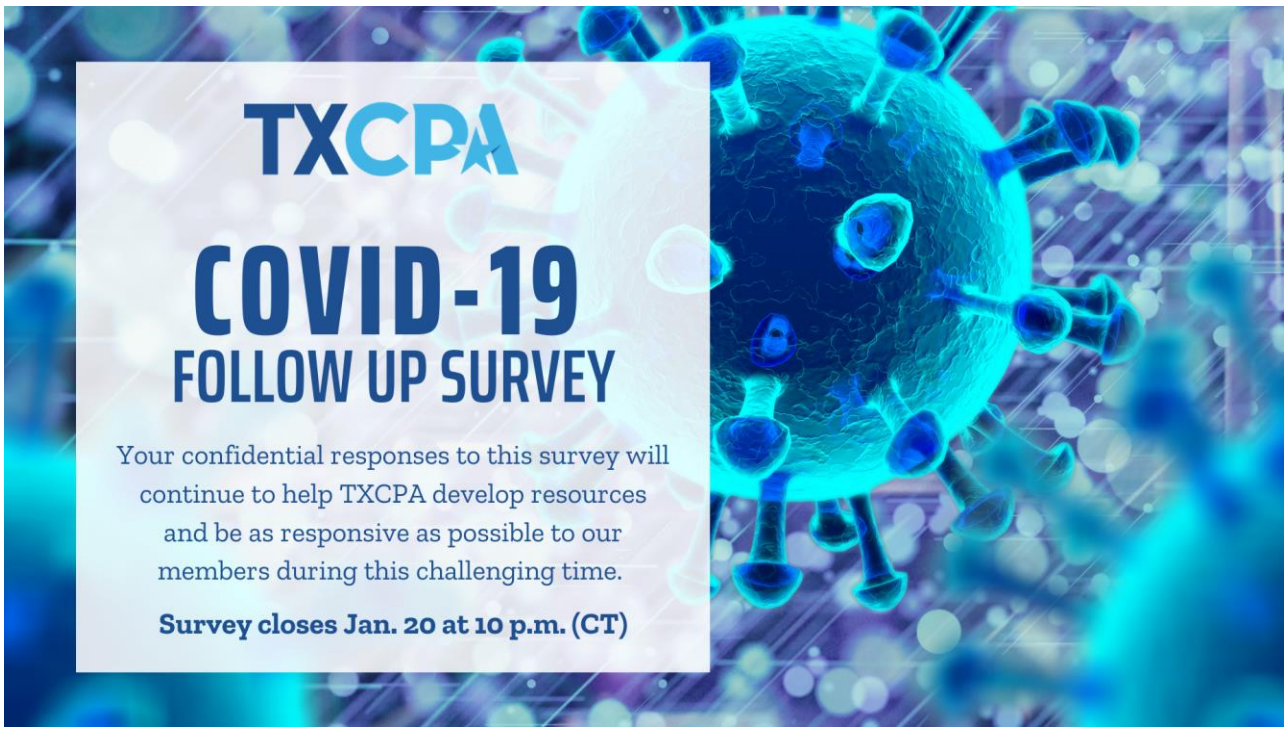
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COVID-19
FOLLOW UP SURVEY
Your confidential responses to this survey will continue to help TXCPA develop resources and be as responsive as possible to our members during this challenging time.
Survey closes Jan. 20 at 10 p.m. (CT)

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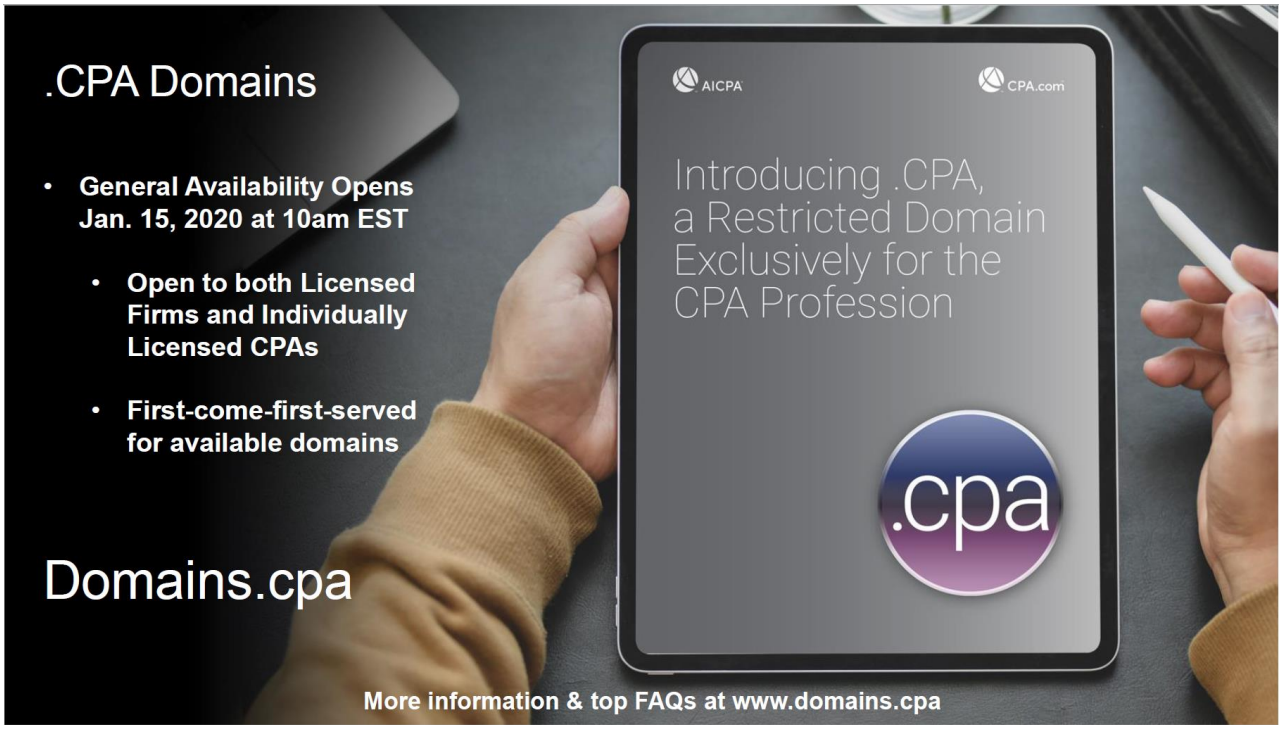
.CPA Domains
• General Availability Opens Jan. 15, 2020 at 10am EST
• Open to both Licensed Firms and Individually Licensed CPAs
• First-come-first-served for available domains
Domains.cpa
AICPA
CPA.com
Introducing .CPA, a Restricted Domain Exclusively for the CPA Profession
.cpa
More information & top FAQs at www.domains.cpa

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OUR WEBSITE ADDRESS HAS CHANGED!
TXCPA
tx.cpa
SAME valuable updates and Society news, NEW online location!

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