

Updates on the CARES Act and PPP Loan Changes Webinar

1. When will we be allowed to submit our documentation to obtain forgiveness on our loan?
 - a. TONY: You can apply early and don't have to wait until January. It is probably not a good idea as the situation is very fluid. My recommendation is to wait. Banks are not yet ready to accept these applications. But if you think you are fully forgiven you can submit your documentation as soon as the banks are ready to receive it.
2. Is the documentation sent to our lender or the SBA?
 - a. TONY: The documentation for forgiveness is sent to your bank/lender.
3. The covered period has now been extended from 8 weeks to 24 weeks, and the split between payroll and other costs changed from 75/25 to 60/40. If we can prove we incurred the proper amount of costs within the 8 week period, can we get our loan forgiven faster?
 - a. TONY: You can apply early but not yet because the banks aren't ready. Might want to wait because things can change. Especially if you are fully forgiven.
4. What am I going to have to supply?
 - a. TONY: Payroll service provider reports, payroll taxes, health insurance cost invoices, documentation necessary how you calculated FTE. Utilities bills, lease agreement, payments to landlords, etc.
5. Tony is the funds that are forgiven going to be taxable income to the business?
 - a. TONY: Congress said they didn't want it to be taxable.
 - b. JENNINGS: Intent was to have the forgiven portion of the loan not be taxable. There have been some issues about the loan money that has been used on business expenses that could be something you can write off. We are waiting for clarification on that. Congress is working to get this codified in law. Business expenses you can still write off that you are making with that money.
6. Is the extension of loan terms from 2 years to 5 years only for people who got their PPP's in June versus earlier?
 - a. TONY: It is for everyone.
7. Owner compensation forgiveness question: I heard I should take 8/52 x our 2019 BMP LLC net income as the amount that can be forgiven for me as owner (max. \$15,385), since I am not a W2. Is this correct?
 - a. TONY : It has been hard for single providers or LLC. 6 months worth of profit. Originally was 2 months. If I don't have payroll and I file a schedule C. This is glossed over.
 - b. JENNINGS: need to look into that.

8. I am a Realtor and I read somewhere that up to \$15300 something, is automatically forgiven....can you comment on that
 - a. TONY: Probably.
9. How about forgiveness of a 1099 independent contractor pay? Brian
 - a. TONY: If you paid an independent contractor the answer is no. If you are an independent contractor and you receive a 1099 you received a PPP it will be predicated on last year's net income for how much will be forgiven. Your independent contractors are not included in your payroll.
10. What happens with if you weren't funded 100% of the amount you requested for PPP. and you can't get more PPP money?
 - a. TONY: That's a lender question.
 - b. JENNINGS: I don't believe so. A growing question in DC is to allow for businesses to apply for a second PPP if needed. That could potentially address those issues but that is in infancy as far as those discussions are concerned.
11. What happens if you received PPP funds but your business still has to close soon after PPP period ends? can the amount still be forgiven?
 - a. TONY: I would think that if the business closed before they spent anything. They can still apply for forgiveness.
 - b. JENNINGS: Regardless of the status of your business as long as you used it for the appropriate reasons you should be able to still receive forgiveness.
12. Tony, I had a payroll period that went from the first to the fifteenth. The PPP was funded for me on the 8th. I included the full amounts paid on the 15th (which included 7 days of accrued payroll from before funding) in my calculation. Please confirm that's ok and that forgiveness will be granted for the full payroll period.
13. What will independent contractors have for forgiveness?
 - a. TONY: 2019 Schedule C for Sole Proprietors. By the six months you will have had to have that filed. Bank Statements as well. They're not anywhere in there but they are out there and got money so we will get clarity.
14. My business has more employees now than a year ago is it okay to spend that money?
 - a. TONY: Yes
15. In regards to the 25% pay cut is that if that base pay cut the people are working less hours but the rate hasn't been cut. That counts to the actual rate. If their salary came down to less than 25% then that applies. You can cut the hours but the rate itself.
 - a. JENNINGS: From conversations he has had he hasn't heard of people having the issue about the 25% rate.

16. If an employer spends 100% of PPP on Payroll in the 6 months would the 40% on rent still play a factor?
 - a. TONY: No.
17. Can you still apply?
 - a. TONY: Yes.
18. Will federal tax deferrals still be
 - a. July 15th is the deadline, you can get an extension if needed. I haven't heard anything about pushing the July date further. Estimates and everything. Haven't heard potential changes yet. Get your items to your CPA now.
19. If now that it changed from 75/25 60/40. Will you have problem with forgiveness?
 - a. TONY: No.
20. Has the EDIL Loan 10,000 been exhausted?
 - a. JENNINGS: that's a good question. We can look into that as they were swamped and back logged. All the money was accounted for quickly.
 - b. CORTNEY: SBEDC can help locate status on EIDL loan applications. You can contact them at 805-409-9159.
21. Where can you find out more information on the reduction in pay in order to keep others working? Resource?
 - a. JENNINGS: SBA website or Treasury.gov/cares. Where they list all the interim roles on these. Look at the FAQ document. Most recent released May 27th. US Chamber.com/coronavirus. We have guides that also addresses these issues as well.
22. Are estimate taxes still due on June 15th?
 - a. TONY: You should be prepared for that. You will have a big third quarter estimate and get back on track after that. Everything tax related has been challenging because the IRS is closed right now. The reverse is true that they are not pursuing or collecting until they are officially open. Third quarter will be a big challenge for sole proprietors.
23. Q: I have a questions regarding restaurant where we have several part-time employees who are paid minimum wage + tips, but now their hours have been cut and their tips have been reduced (due to less traffic in restaurant). Obviously their hourly rate cannot be reduced because it is minimum wage. Do we need to keep paychecks in the PPP period within 25% of their pre-March 2020 paychecks then? I thought the forgiveness application had a penalty for such a reduction, but Tony Vallejo's comments during the webinar seemed to be that unless we cut their hourly rate (which we cannot, since it is minimum wage), there is no penalty, even if the actual amount per paycheck each employee received is potentially drastically reduced, due to fewer hours and decreased tips. When we applied for PPP funds, we applied based upon 2019 payroll figures, which included tip amounts paid out to employees, so I am

confused as to our obligations in this regard.

A: If the loan amount you received was based off 2019 payroll figures that include tips, I'd advise paying each employee at or near 100% of their expected compensation – based off 2019 figures – which might actually mean increasing their wage during the covered period. Better to use the loan amount this way to ensure forgiveness than not. It is based on wages not tips so there will be no penalty/reduction of forgiveness for tips being lower than before.

24. Q: I have a question about the PPP forgiveness. We had to layoff 33 people but because work is so slow we have only been able to hire back 8 people so far. How long do we have to re-hire our employees, and what happens if work is still slow and we are not able to hire everyone back?

A: Under the recently-passed PPP Flexibility Act, PPP borrowers now have until December 31, 2020 to rehire employees and restore the FTE count that existed on Feb 15, 2020. If possible, I'd advise that you attempt to rehire all 33 people that were laid off, even if you don't have work for them, because doing so is necessary in order to have the PPP loan forgiven. Any reduction in FTE count or more than a 25% reduction in employee wage/salary will reduce forgiveness. The program was designed to keep employees on payroll for the covered period without regard for whether they're needed in the workplace.

25. Q: If our loan is over \$2 million, are both the bank and SBA going to audit our submitted documentation?

A: The SBA will be reviewing loans over \$2 million. There is no guarantee of an audit, but it could happen.

26. Q: Who approves the forgiveness? The bank? The SBA? Who gives you official notification the loan is forgiven?

A: The application for loan forgiveness must be submitted to the lender. The lender will then have 60 days from receipt of the application to render a decision and notify the borrower.

27. Do I use last year's payroll to calculate the amount I can borrow if I became an S Corp on 12/31/2019 or do I use the payroll at the beginning of 2020 to calculate the amount that I can borrow with the PPP?

A: If the business was established on December 31, 2019, average payroll costs from January and February 2020 will be used to determine the maximum PPP loan amount. Per the CARES Act, the covered period starts on Feb 15, 2020 so lenders are going to be using that date as a kind of baseline. In this case, if the business was an S Corp on that date it should apply as such.