

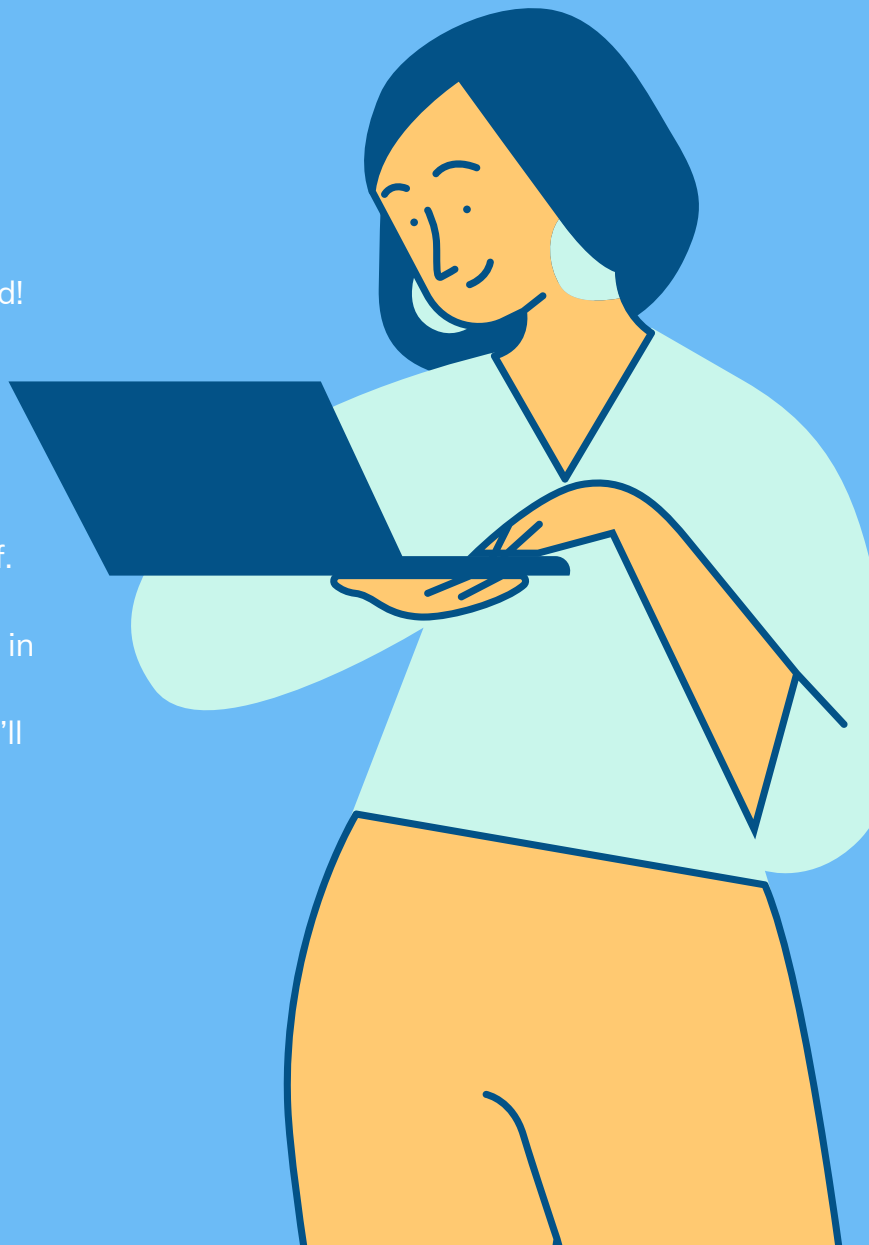
5 MAGICAL QUESTIONS

About PPP & Government Relief to Ask Your Accounting Today

We'd love to get our hands on a magic finance eight ball for you, especially after the year we've had!

Instead, here are 5 must-ask questions for you to put to accounting about the Paycheck Protection Program (PPP) loan forgiveness and government relief.

Shake it up and ask the questions in any order you please. If you are financially prepared, we think you'll like the answers.



1



“I got a PPP Loan . Do I apply now for loan forgiveness?”

Yes. Businesses with a PPP loan should apply through their lender for loan forgiveness sooner rather than wait for new government relief legislation. We dare not predict our nation’s fiscal future.

Here’s what we know for sure:

1. PPP loan forgiveness is exceptional in that it does not create income. Normally, a forgiven loan would be treated as taxable income.
2. Expenses like rent and utilities which would be forgiven under PPP rules are not deductible.

On the one hand, you could wait for more favorable financial outcomes than trading taxes for deductions. You do have up to 10 months from the end of the covered period (24 weeks) to apply for forgiveness.

On the other hand, a future government relief package may not override the IRS guidance that says expenses associated with tax-free income are nondeductible (IRS Notice 2020-32).

In addition, there is no way to tell whether or not taxes will go up in 2021.

If your lender is accepting applications for PPP loan forgiveness, ask accounting to get started now.

2



“Will loan forgiveness impact my business’s taxes?”

Yes. Forgiveness of your PPP loan will have an impact on your taxes. How much will loan forgiveness impact your business’s tax bill depends on your P&L.

Here’s what we know for sure about the impact loan forgiveness will have on your business’s finances:

1. It will reduce your deductible expenses.
2. It could also reduce your R&D Tax Credit amount for 2020.
3. How you allocate qualified expenses could impact your taxes.
4. GAAP does not have guidance on how to account for forgivable loans made by the government and that will impact your financial reporting.

In most cases, the impact of PPP loan forgiveness on your business remains unknown until 2021. Which means that you won’t know whether or not to deduct payroll and working capital expenses when you file for 2020. A 2020 extension may help. However, estimated tax payments will need to be considered with your cash flow plans even if you receive forgiveness in 2020.

3



“Will my PPP loan be forgiven?”

Yes, if you can demonstrate that you have used the loan for its intended purpose: maintain payroll during the pandemic.

As we stated, PPP recipients have up to 10 months from the end of the covered period (24 weeks for all PPP loans disbursed after June 5, 2020) to apply for forgiveness.

In June, the PPP Flexibility Act changed loan forgiveness in these significant ways that you should know about.

- Reduced the payroll costs from 75% to 60% of the loan (during the covered period) and 40% on non-payroll costs to qualify for full forgiveness.
- Borrowers unable to reach 60% toward payroll costs could receive partial forgiveness.
- Increased the covered period from 8 to 24 weeks (168 days) in which funds can be used.
- Extended the date to reach the FTE salary/hourly wage rehire safe harbor from June 30, 2020, to December 31, 2020.
- Small businesses with loans of \$50,000 are allowed partial forgiveness, even if they are not able to reach pre-pandemic FTE levels or had to cut wages.

You should also know that if you received an Economic Injury Disaster Loan (EIDL) Advance of \$10,000, that amount will reduce your PPP loan forgiveness.

4



“Will the SBA audit my business?”

The SBA has stated that it will review any loan over \$2 million and the process is expected to be similar to an audit. All others with a PPP loan should be prepared for a review by the SBA.

We know what you need to be prepared:

- Maintain all documents and forms used to calculate and apply for the loan, including payroll records, employee counts, financial statements, and a copy of your submitted application.
- Be ready to argue, if needed, that when you took the PPP loan, “current economic uncertainty makes this loan request necessary to support the ongoing operations”.
- Keep clear records of the use of the loan proceeds—like a spreadsheet documenting how proceeds were used during the covered period, financial statements, and bank records.

Ask your lender, your payroll provider, and your accounting team for what you will need sooner rather than later. Unless you can pull a rabbit out of your financial hat.

5



“What other government relief is there for my business?”

Today, you have the following federal government economic relief options:

Businesses impacted by COVID-19, hurricane season, or wildfires can apply for a low-interest Economic Injury Disaster Loan (EIDL) through the Small Business Administration (SBA).

The Federal Reserve Bank initiated a \$600 billion Main Street Lending Program (MSLP) to assist small and medium-sized businesses (and qualified nonprofits) that either did not meet PPP loan requirements or needed more financial assistance than allowed under the PPP. Though we cannot know what the future may bring, by asking the right questions your business can be prepared for whatever comes your way. Being prepared is the next best thing to a magic eight ball.

Our financial experts can get you prepared for what's next.

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hello@indinero.com



855-463-4637



indinero.com

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