



## Dental Industry Update

### Update on the Payroll Protection Program

#### *Tips to help you navigate the process*

by Art Wiederman, CPA, Partner

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As we have been discussing in our webinars, letters to you, and in individual conversations, we have been waiting for clarification on many aspects of the Payroll Protection Program that was rolled out by the SBA on Friday, April 3, 2020.

Yesterday an updated FAQs was released on the Treasury's website as to when the funds must be disbursed and when the eight week period for forgiveness begins. Previously, some banks have mentioned an applicant could apply and not accept the loan until a later date. The FAQs posted on the Treasury website clarify that the first disbursement must be made within 10 days of applying and initial disbursement will start the eight week period. Please take this into consideration when speaking with your lender and determining when to submit your application and whether you are going to accept this loan.

Here is the guidance from the SBA that came out earlier today...this is question 20 of their FAQs:

**The amount of forgiveness of a PPP loan depends on the borrower's payroll costs over an eight-week period; when does that eight-week period begin?**

**Answer:** The eight-week period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the first disbursement of the loan no later than ten calendar days from the date of loan approval.

***Example:***

- Practice applies for a loan today
- Practice is approved by 4/10.
- Practice must take an initial disbursement by 4/20 (assuming max deferment)
- If the disbursement is taken by 4/20, only costs spent before 6/15/20 (eight weeks after initial disbursement) are eligible for forgiveness
- Any part of the loan not eligible for forgiveness must still be used for eligible expenses and is treated as a low interest loan.

Please refer to our letter of April 1 for more information on the PPP loan.

It is our desire to outline the choices you now that the rules of how you must take the money have been provided by the SBA. There had been hope that there would be flexibility as to when these funds had to be disbursed; however, with yesterday's guidance it appears clear as to the SBA's intentions on how the disbursement and the start of the eight-week period will work.

**Please consider the points below in making your decision.** (Keep in mind, these rules are constantly changing - this is the most current information we have from the SBA.)

- If you have applied for the PPP loan, it is our understanding that banks and financial institutions are starting to approve loans. Given that it is the government's number one objective to put money into the hands of American workers, and from conversations we have had with banks and financial institutions, it is our belief that loan approval will occur sooner rather than later. Disbursements could begin in the next week or two. Many banks are requiring disbursement in less than ten days from approval of the loan.
- If you choose to take the loan, you will have eight weeks to spend the money for the legally intended purposes, in order to obtain forgiveness of the loan, namely: payroll costs, rent, utilities, and certain interest costs. Also in order to obtain the maximum forgiveness you will need to spend at least 75% of the funds on payroll costs and you will need to maintain your previous level of employees.

**For example:** If you were to receive your loan proceeds on April 20 and your office does not open until June 15, you will be paying your employees while your office is closed. You should consider the employee goodwill you would create by returning them to payroll immediately. During this time your team could:

- Participate in training or continuing education
- Reach out to patients
- Review office systems for efficiency

You need to weigh the benefits of taking and using the PPP loan money now while your office is closed versus having it available to you when your office reopens.

- You can choose to withdraw your loan application and wait and see how long it will be until businesses are allowed to reopen. (Please check with your lender if you are permitted to withdraw your application and reapply at a later date.) We believe if you choose to withdraw your application and reapply at a later date, there is a risk that the funds may no longer be available. While Treasury Secretary Mnuchin has spoken to Congressional leaders about an additional \$250 billion for this program, that is indeterminate. You should weigh this and the fact that your employees will be out of work without pay (if you are not currently paying them) until you obtain the PPP loan or reopen your office.
- You can choose to not apply at all for the PPP loan or not accept the loan when approved. While you would not have these funds to pay the covered expenses as outlined in the CARES Act, you could potentially be eligible for the Employee Retention Tax Credit. This is limited but would provide some financial relief.

Every situation is different and unique. We're happy to discuss options with you, but the final decision is yours. Our Dental Services Group is doing its best to stay on top of this ever changing situation, and to provide you with the most up-to-date information so you can make the best possible decisions for you, your practice, and your family. Please reach out to us if you need any help during these very challenging times.

Here are some updates provided by the Frequently Asked Questions provided by the SBA in the past few days:

**The CARES Act excludes from the definition of payroll costs any employee compensation in excess of an annual salary of \$100,000. Does that exclusion apply to all employee benefits of monetary value?**

**Answer:** No. The exclusion of compensation in excess of \$100,000 annually applies only to cash compensation, not to non-cash benefits, including employer contributions to defined-benefit (Cash Balance) or defined-contribution retirement plans; payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums; and payment of state and local taxes assessed on compensation of employees.

**What time period should borrowers use to determine their number of employees and payroll costs to calculate their maximum loan amounts?**

**Answer:** In general, borrowers can calculate their aggregate payroll costs using calendar year 2019. Applicants may use their average employment over the same time periods to determine the numbers of employees. An applicant not in business for the period between 2/15/19 and 6/30/19 may use the average payroll for the period 1/1/20 through 2/29/20.

**Should payments that an eligible borrower made to an independent contractor be included in calculations of the borrower's payroll costs?**

**Answer:** No. We understand some major banks are still requesting this figure but it is incorrect.

**How should a borrower account for federal taxes when determining its payroll costs for the purposes of the maximum loan amount?**

**Answer:** Under the Act, payroll costs are calculated on a gross basis without making an adjustment for employee withholdings. The employer's portion of the FICA tax (Social Security and Medicare) is not added to payroll costs. We understand it is a cost, but it is not an eligible cost for the purposes of this program. Some major payroll companies have been including these totals in their reports which is incorrect.