



**PAYCHECK PROTECTION  
PROGRAM**

**EMPLOYEE RETENTION  
CREDIT**

# ALL ABOUT PPP 2.0 and the Employee Retention Credit

# TODAY'S PRESENTERS



**Vivian Mui**  
*Senior EVP, Chief Credit Officer*  
**CBC**



**John Schweisberger**  
*Partner*  
**Armanino LLP**



**Jenn McCabe**  
*Partner*  
**Armanino LLP**

# AGENDA

---

- **Lessons Learned from PPP 1.0**
  - Economic Necessity and Form 3509/3510
  - Tax Implications
- **PPP 1<sup>st</sup> Draw vs. 2<sup>nd</sup> Draw: What's New / Changed / The Same?**
  - Existing First Draw Loans
  - New First Draw Loans
  - Second Draw Loans
  - Q&A
- **Employee Retention Credit**
  - Overview
  - New Rules for 2021
  - Case Studies
  - Q&A

# LESSONS LEARNED FROM PPP 1.0

# PPP 1.0 LESSONS LEARNED

## ECONOMIC NECESSITY



New loan eligibility forms for >\$2M borrowers – Form 3509 (for profit) & Form 3510 (not for profit)



SBA triggers Lender to start process after forgiveness application submitted



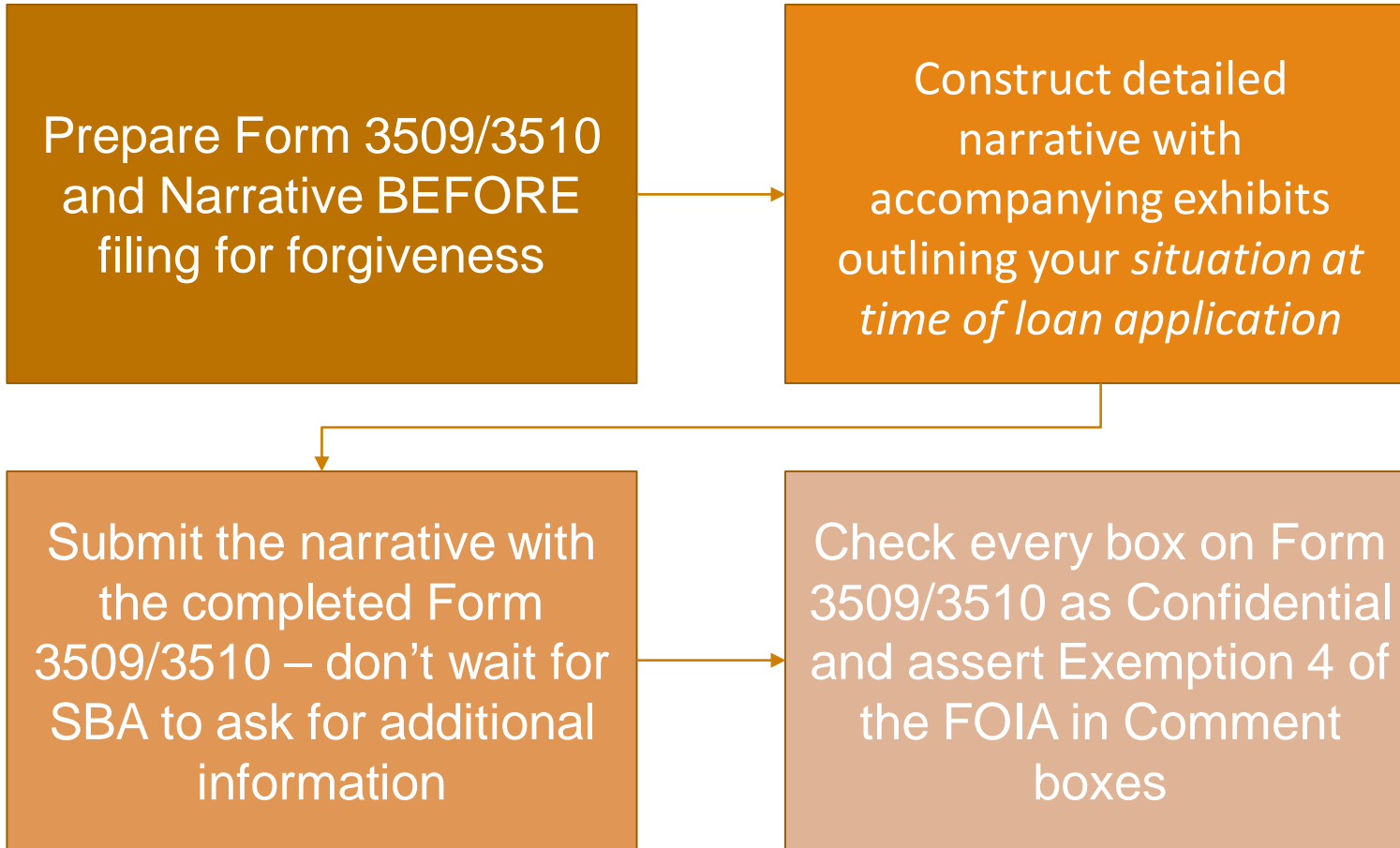
10-day response window





# PPP 1.0 LESSONS LEARNED

## ECONOMIC NECESSITY BEST PRACTICES



# PPP TAX IMPLICATIONS

- Now officially a tax-free event – at the Federal level
- State taxability is a very mixed bag (as of January 19, 2021)

## 13 States Including PPP Loan Forgiveness in Taxable Income

Arkansas	Mississippi
Arizona	New Hampshire
Florida	Oregon
Idaho	Virginia
Maine	Vermont
Michigan	West Virginia
Minnesota	

## 10 States NOT Allowing Deductions for Expenses Paid with Loan Proceeds

California	Kentucky
Colorado*	North Carolina
Georgia	New Jersey
Hawaii	South Carolina
Indiana	Wisconsin

\* Presumed but without official confirmation

<https://www.armaninollp.com/articles/ppp-loan-federal-state-tax-implications/>

# PPP 1<sup>st</sup> Draw vs. 2<sup>nd</sup> Draw

What's New / Changed / The Same?



# ECONOMIC AID ACT HIGHLIGHTS



- Re-opens PPP loan opportunities for distressed businesses through March 31<sup>st</sup>
  - New “First Draw” loans
  - “Second Draw” loans
- Simplifies Forgiveness for loans under \$150K
- Expands expense categories eligible for forgiveness
- Allows borrower to choose any Covered Period between 8 and 24 weeks



# EXISTING, NOT YET FORGIVEN FIRST DRAW LOANS

## FORGIVENESS RULES

WHAT'S NEW	WHAT'S CHANGED	WHAT'S THE SAME
New Expense Categories including Supplier Costs, Operations Costs, Worker Protection Costs, Property Damage Costs	Simple certification for loans under \$150K	Payroll costs must be 60+% of forgiveness amount
Expanded Payroll Costs to also include Disability, Group Life	\$10K EIDL Grants no longer deducted from forgiveness	Compensation per employee capped at annualized \$100K
"Seasonal Employer" defined (<7 months operation, 75/25 revenue ratio)	Seasonal Employer look-back period now any 12-week period between 2/15/19 – 2/15/20	FTE and Salary Reduction Factor look-back period choices and Safe Harbor rules
	Borrower-defined Covered Period	10 months from end of Covered Period to apply for forgiveness

# NEW FIRST DRAW LOANS

FOR BORROWERS WHO *DID NOT* TAKE A PPP LOAN IN 2020

WHAT'S NEW	WHAT'S CHANGED	WHAT'S THE SAME
Nonprofit Housing Coops, 501(c)(6) and Destination Marketing Organizations now eligible (Note 300 employee limit)	Loan Application form	2.5x Average Monthly Payroll Costs for 2019; 500 employee limit, \$100K annualized comp cap
Authorized uses expanded to include Supplier, Operations, Worker Protection and Property Damage Costs	EIDL Advance no longer netted against Loan amount	Authorized uses include Payroll, Rent, Utilities, Mortgage Interest Costs
3 new certifications (No SVG, Not publicly traded, No Federal executive with controlling interest)	Must not have permanently closed (added to certification)	Must have been in business before 2/15/20
		1% Interest, 5-Year term
		Affiliation rules

# SECOND DRAW LOANS

## FOR BORROWERS WHO DID TAKE A PPP LOAN IN 2020

- Stricter eligibility
  - Must have spent all First Draw proceeds on authorized uses at disbursement
  - Must have incurred 25+% gross receipts decline in any 2020 quarter compared to 2019, or for full year 2020 vs. 2019
  - Must have 300 or fewer employees (note: Headcount, *not* FTEs)
- Not required to have filed for forgiveness of First Draw loan yet
- Must reference the SBA Loan Number of First Draw loan on loan application
- Cannot receive a Shuttered Venues Grant
- Forgiveness rules unchanged from First Draw loans...so far



# SECOND DRAW LOANS

## KEY DIFFERENCES BETWEEN FIRST DRAW AND SECOND DRAW LOANS

	First Draw Loans	Second Draw Loans
<b>Eligibility Requirement</b>	Economic uncertainty	25% YoY decline in any quarter of 2020
<b>Employee Cap</b>	500	300
<b>Loan Amount Basis</b>	2.5x Average Monthly Payroll Costs	Same except 3.5x for NAICS 72 entities
<b>Payroll Cost Time Period</b>	2019	Borrower's choice: 2019, 2020 or prior 12 months of loan disbursement (after 2/1)
<b>Maximum Loan Amount</b>	\$10M per entity, \$20M per corporate group	\$2M per entity, \$4M per corporate group
<b>Restricted Entities</b>	Publicly-traded companies	China affiliation, political/lobbying firms, SVG recipients, publicly-traded companies



# SECOND DRAW LOANS

## ➤ **Gross Receipts for For-Profit Entities Includes:**

- All revenue received or accrued from whatever source
  - Sales of products or services
  - Interest and Dividends
  - Rents, royalties, fees or commissions

## ➤ **What it doesn't include:**

- Returns and allowances
- Net capital gains and losses
- Pass-through taxes collected (e.g., state sales tax but not employee-based payroll taxes)
- Intercompany transactions
- Amounts collected for a third party (e.g., travel agent collecting airfare)



# SECOND DRAW LOANS



## ➤ **Gross Receipts for Nonprofit Entities**

- Defined in the CAA with reference to Internal Revenue Code Section 6033
- Not actually defined in IRC Section 6033
- Look to the Treasury Regulations (1.6033-2(g)(4))

## ➤ **Definition Includes the following:**

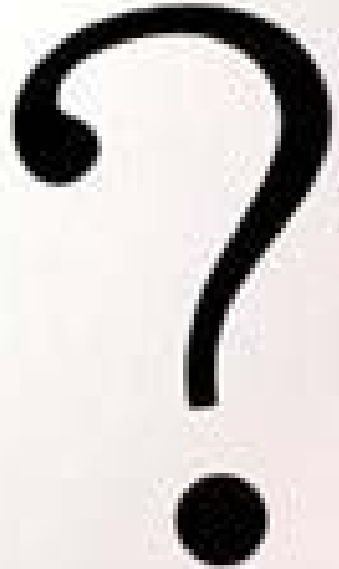
- Gross sales or receipts from business activities
- Gross amounts received as:
  - Contributions, gifts, grants, and similar amounts
  - Dues or assessments from members or affiliated organizations
  - Investment income such as interest, dividends, rent, and Royalties
- Gross amount received from the sale of assets without reduction for costs or other basis and expenses for sale

## ➤ **What it doesn't include**

- Costs of goods or assets sold
- Costs of operations, or expenses of earning, raising, or collection the amounts
- Think Form 990, Heading G (Gross Receipts)



# PPP FAQs



1. Can I apply for a Second Draw PPP loan if I took a PPP loan and an EIDL loan in 2020?
2. How do I calculate the number of employees to determine eligibility?
3. What documentation is necessary to prove 25% decline?
4. In the new expense categories, what are “Covered Supplier Costs”? What are “Covered Operations Costs”?
5. If I take a Second Draw loan, will the SBA look at the combined value and, if that’s over \$2 million, make me justify the loans with a Form 3509/3510?

## PPP Forgiveness FAQ Library

*Updated 1/22/21*

The FAQ library is categorized to make navigating this information as easy as possible. Should you have any additional questions about the Forgiveness process, please forward your question to [PPP\\_Questions@bankcbc.com](mailto:PPP_Questions@bankcbc.com). We will provide an updated FAQ Library weekly. Questions deemed specific to individual businesses will receive a direct response each week.

Of note, the forgiveness calculation model we will send to you will automatically perform every calculation necessary to complete your application based on the data you enter in the model. Thus, please don't feel as though you need to know how to apply every rule associated with this complicated application. The model will run the calculations for you.

Enter your question:

### Allowable Expenses

#### Payroll Costs

▼ Expand All

▼ What is allowed in payroll costs?

▼ Can you clarify covered payroll costs? Are they based on the date that the money was

***Didn't get your  
Question answered?***

Visit the Searchable FAQ Library:

- <https://www.californiabankofcommerce.com/ppp-loan-forgiveness/>
- <https://info.armaninollp.com/ppp-forgiveness-faq/cbc/>

# EMPLOYEE RETENTION CREDIT (ERC)

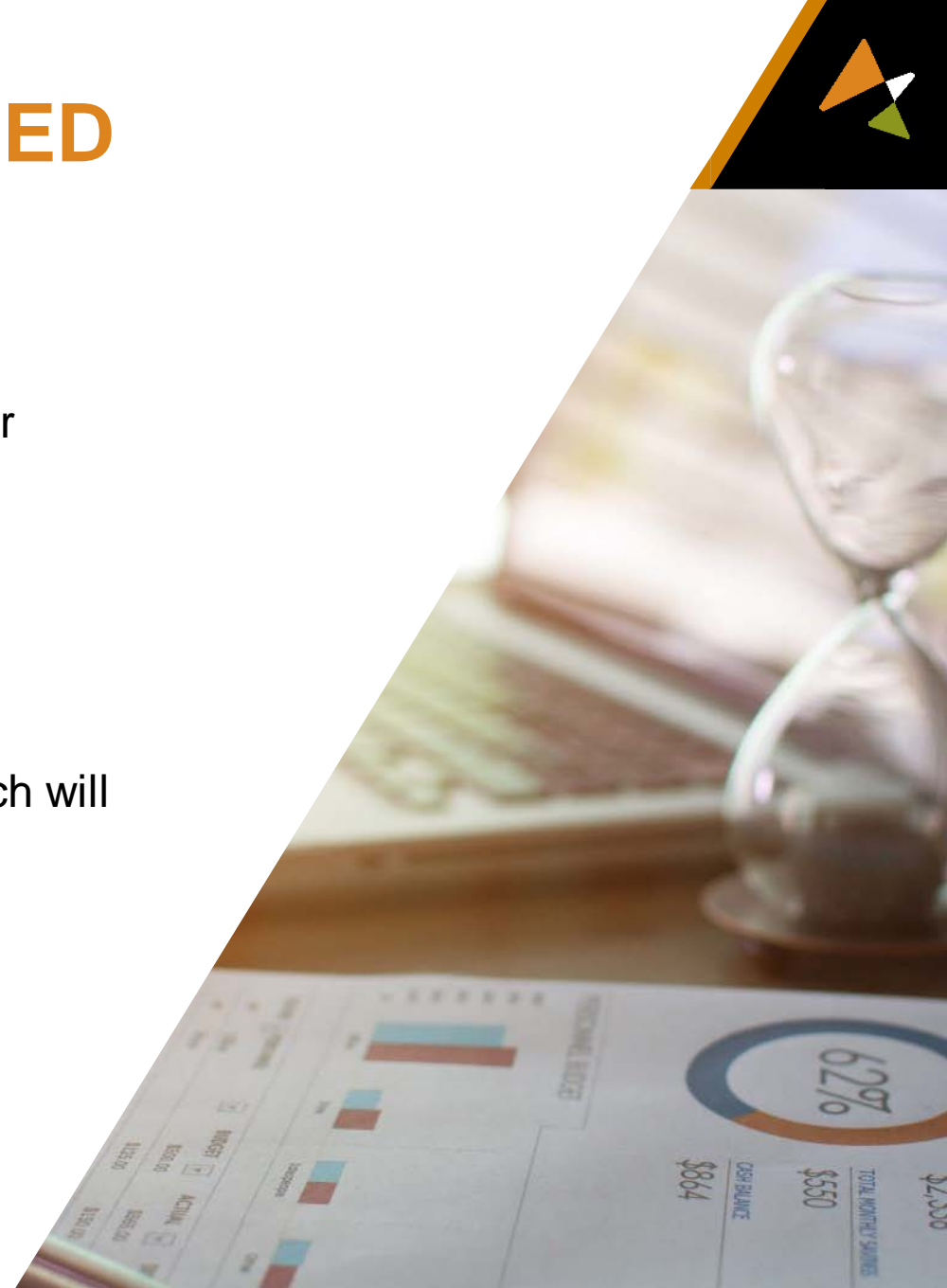


# ERC & PPP NOW ALLOWED

- Intended to reward **employers who continue to pay** their staff despite the fact that they are suffering through difficult economic conditions as evidenced by either shut-down orders or gross receipts declines.
- Allows for a 2020 **credit** (not a deferral) of 50% of eligible wages up to \$10,000 per employee. That's up to **\$5,000 per employee in 2020**.
- Allows for a 2021 **credit** (not a deferral) of 70% of wages up to \$10,000 per eligible employee PER QTR. That's up to **\$14,000 credit per employee in 2021**.
- Credit is applied to the employer's total quarterly 941 payroll tax liability and is "**refundable**" and "**advanceable**".

# COMPLEX WORKPAPERS REQUIRED

- You can't take the ERC for wages that are used to qualify for other programs:
  - PPP forgiveness
  - R&D Credits
  - FFCRA (COVID) paid leaves
- The ERC credit takes precedence over the PPP wages which will confuse taxpayers who have already submitted their PPP Forgiveness Applications

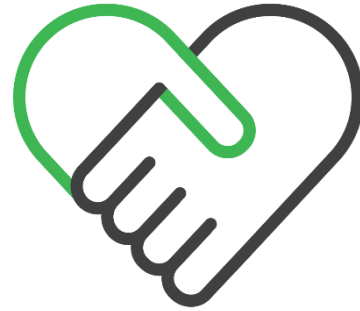


# CASE STUDIES



- ✓ **40 staff**
- ✓ Non-essential
- ✓ Cosmetic Retailer
- ✓ All wages eligible during shut-down period

\$150-200,000 tax credit



- ✓ **Under 20 staff**
- ✓ Non-essential
- ✓ **NFP business**
- ✓ **Some Rev Come from State & Federal Sources**
- ✓ All wages eligible during shut-down period

\$60-75,000 tax credit



- ✓ 800 staff
- ✓ Non-essential
- ✓ **Shut down > open > shut down > open again**
- ✓ 50% down in receipts

\$750,000 tax credit

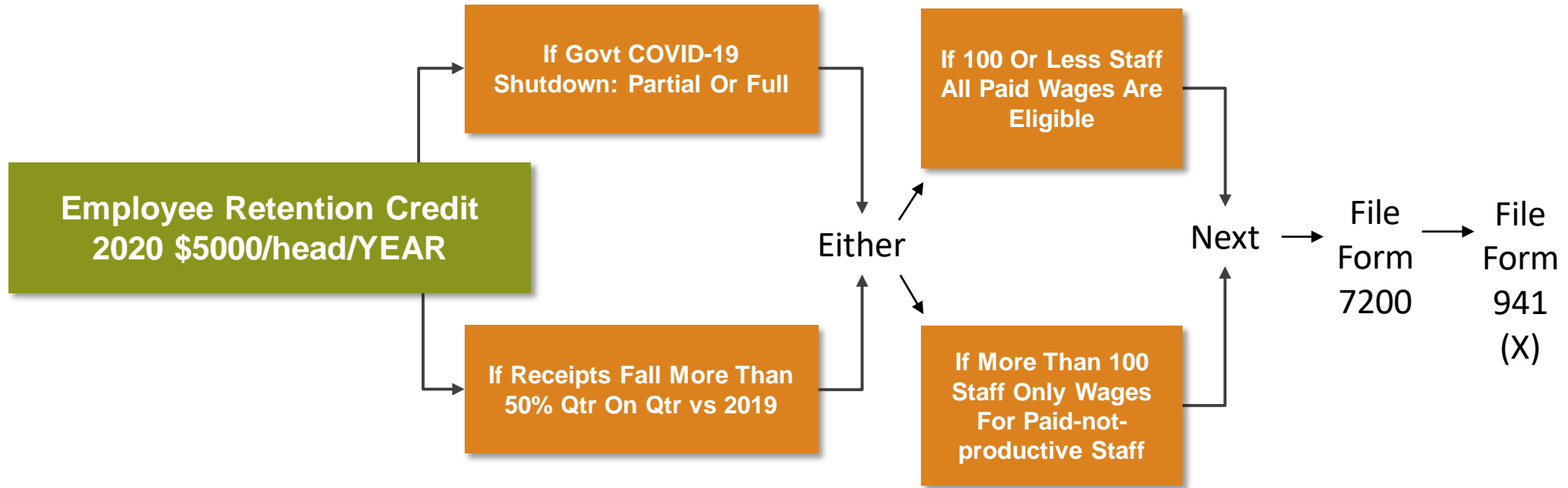
# 2020 ERC RULES

## DETERMINE IF YOUR ORGANIZATION IS ELIGIBLE

- In 2020, did you experience **EITHER**:
  - A. A more than **50%** drop in revenues comparing 2020 quarters to the corresponding quarter in 2019?
  - OR**
  - B. Disruptive government orders to suspend, or partially suspend operations?
- ***You may qualify for the credit if:***
  - You answered yes to **A.**
  - OR**
  - You answered yes to **B.** and you have less than **100** staff
  - OR**
  - You answered yes to **B.**, have more than **100** workers and paid people who were unable to provide services during that period.



# 2020 EMPLOYEE RETENTION CREDITS





# 2021 ERC RULES

## DETERMINE IF YOUR ORGANIZATION IS ELIGIBLE

- In 2021, did you experience EITHER
    - A. A more than **20%** drop in revenues comparing 2021 quarters to the corresponding quarter in 2019? Or when comparing Q4 of 2020 to Q4 of 2019?

**OR**

  - B. Disruptive government orders to suspend, or partially suspend operations?
- You may qualify for the credit if:
    - You answered yes to **A.**

**OR**

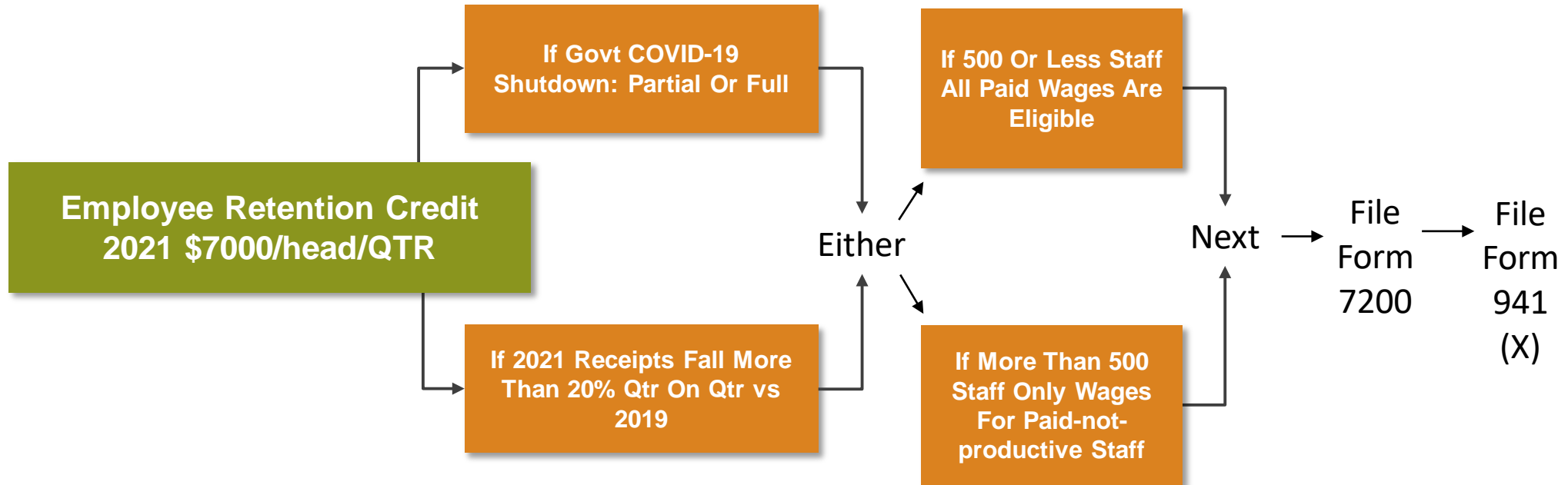
  - You answered yes to **B.** and you have less than **500** staff

**OR**

  - You answered yes to **B.** have more than **500** workers and paid people who were unable to provide services during that period.



# 2021 EMPLOYEE RETENTION CREDITS



# ADDITIONAL INFORMATION

---

- Check out the Armanino blog: [\*Consolidated Appropriations Act Expands Employee Retention Credit\*](#)



# **Frequently Asked Questions**

# EMPLOYEE RETENTION CREDIT FAQs



1. Do we need to show a revenue drop in all quarters or any quarter?
2. What constitutes a government shut-down order?
3. How do I separate PPP eligible payroll from ERC eligible payroll?
4. Can I just have my payroll company do this?

## PPP Forgiveness FAQ Library

*Updated 1/22/21*

The FAQ library is categorized to make navigating this information as easy as possible. Should you have any additional questions about the Forgiveness process, please forward your question to [PPP\\_Questions@bankcbc.com](mailto:PPP_Questions@bankcbc.com). We will provide an updated FAQ Library weekly. Questions deemed specific to individual businesses will receive a direct response each week.

Of note, the forgiveness calculation model we will send to you will automatically perform every calculation necessary to complete your application based on the data you enter in the model. Thus, please don't feel as though you need to know how to apply every rule associated with this complicated application. The model will run the calculations for you.

Enter your question:

### Allowable Expenses

#### Payroll Costs

▼ Expand All

▼ What is allowed in payroll costs?

▼ Can you clarify covered payroll costs? Are they based on the date that the money was

***Didn't get your  
Question answered?***

Visit the Searchable FAQ Library:

- <https://www.californiabankofcommerce.com/ppp-loan-forgiveness/>
- <https://info.armaninollp.com/ppp-forgiveness-faq/cbc/>

# Thank You!