



LYNCO

Financial & Tax Services, Inc.

Lynn A. Schmidt, EA, CTP, CTC, CFS, CSA, ARA

917 Keith Lane, Auburndale, FL 33823

Phone: (863) 295-9895, Fax: (863) 298-8299

www.LyncoFinancial.net

www.TaxPlannerFL.com

www.LyncoTax.com

April, 28 2020

News You Can Use

How Does SBA Paycheck Protection Program (PPP) Loan Forgiveness Work with Laid Off Employees

*As an **Enrolled Agent**, a **federally licensed tax expert**, **Certified Tax Planner** and a **Certified Tax Coach**, Lynn believes in keeping taxpayers informed with the most updated information available. Please review the information that has been provided and call our office at 863-295-9895 if you have questions or need professional assistance with tax planning or any IRS or other tax matters.*

If you've laid off employees due to the coronavirus between February 15, 2020, and June 30, 2020, you may still qualify for a forgivable loan through the Paycheck Protection Program (PPP) if you meet certain requirements. Additionally, if you return employees and wages to their pre-February 15, 2020 levels before June 30, 2020, you may avoid having any loan forgiveness reduced.

The Paycheck Protection Program is part of the larger government stimulus package. Loans through the Paycheck Protection Program are meant to minimize the number of unemployed persons by helping eligible business and organization owners cover payroll costs and certain operating expenses.

If borrowers meet certain requirements, their loans may be forgivable, in whole or in part. One of those requirements has to do with rehiring employees who've been laid off. Here are a few things you'll want to know if you've laid off employees recently as a result of COVID-19.

How your PPP loan forgiveness may be affected

Your potential loan forgiveness **may be reduced** if you employ fewer people on average in the eight weeks after you receive a PPP loan compared to specific lookback periods set by the CARES Act.

Specifically, to calculate your potential reduction in forgiveness, you will be asked to compare the average number of monthly full-time equivalent (FTE) employees you employ during the eight-week period after you receive your loan with the average number of monthly full-time equivalent employees you employed during one of the following lookback periods:

- February 15, 2019, to June 30, 2019
- January 1, 2020, to February 29, 2020

Most businesses can select which lookback period they prefer to use for the comparison, but seasonal businesses have to use February 15, 2019, to June 30, 2019.

For example, if you employ on average eight people a month during the eight-week period after you receive your loan, but you employed on average 10 people a month between February 15, 2019, and June 30, 2019, your potential loan forgiveness would be reduced by 20%. That's because you currently employ on average 20% fewer workers than the lookback period.

The amount of loan forgiveness will not be reduced based on a reduction in employees between February 15 and April 26, 2020, if the reduction is reversed by June 30, 2020.

4 tips for rehiring employees by June 30

1. **Communicate as much as possible.** You might not know what will happen after June 30, and that's OK. You may find your employees would rather their employer be transparent, even if they don't have all the answers.
2. **Accommodate health restrictions.** If an employee is ill or caring for a family member who is ill, you can still rehire them. Just be flexible with their time until they can come back in good health. If an employee is concerned about contracting COVID-19 at work, consider alternative work arrangements. You may also allow the employee to go negative on their sick time.
3. **Continue to observe city and state mandates.** If your city or state has enacted a shelter-in-place order, you might be wondering where and how your employees will work. If you can, explore creative solutions that involve working from home. It may be advisable to allow employees to use sick leave and other paid time off if remote work is not possible.
4. **Consult the experts.** If you're hoping to apply for loan forgiveness, it might help to talk to your lender, HR personnel, or an employment law expert. Find out if you need any specific forms or paperwork when rehiring employees.

Further explanation of PPP Loan Forgiveness

Recipients of a Paycheck Protection Program (PPP) loan may apply for loan forgiveness from their lender after the eight-week period following disbursement of their loan. The amount of loan forgiveness, if any, a PPP loan recipient may receive will depend on a variety of factors discussed below, but will not exceed the loan principal amount plus accrued interest.

Certain uses of your PPP loan count towards how much forgiveness may be allowable, including:

- Payroll costs (which are defined in the statute)
- Mortgage interest payments on mortgages incurred in the ordinary course of business before February 15, 2020
- Rent payments under leases dated before February 15, 2020
- Utility payments for electricity, gas, water, transportation, telephone, or internet access under service agreements dated before February 15, 2020
- For certain employers identified in the statute, additional wages paid to tipped employees

The uses listed above are ones that may be covered by loan forgiveness ("covered uses"), and are not the only allowable uses of a PPP loan.

Only loan proceeds spent on covered uses during the eight-week period following disbursement of your PPP loan are forgivable - You don't have to use all of your loan proceeds in the first eight weeks. However, amounts you spend after this eight-week period won't be forgivable.

Reductions in staffing may impact your forgivable amount - Your allowable forgiveness may be reduced if the average number of full-time equivalent employees* you employ during the eight-week period after receiving your PPP loan is less than the average number of full-time equivalent employees you employed between either February 15, 2019, and June 30, 2019, or January 1, 2020, and February 29, 2020. Most employers can choose which of these two time periods to use for comparison, but seasonal employers have to use February 15, 2019, to June 30, 2019.

You will not be penalized for any reduction in the number of full-time equivalent employees occurring between February 15, 2020, and April 26, 2020, as long as you eliminate the reductions by June 30, 2020.

Reductions in employee salary or wages may impact your forgivable amount - Your allowable forgiveness may be reduced if there is a reduction in total salary or wages for any employee during the eight-week period that is more than 25% of the total salary or wages of that employee in the most recent full quarter they were employed before you received the PPP loan. For purposes of this calculation, don't count any employee who had salary or wages higher than \$100,000 in 2019.

You will not be penalized for any reduction in salary or wages occurring between February 15, 2020, and April 26, 2020, as long as you eliminate the reduction by June 30, 2020.

Your forgivable amount also may be reduced because:

- Not more than 25% of the loan forgiveness amount may be attributable to non-payroll costs.
- You received an advance through the Economic Disaster Injury Loan program.

To apply for loan forgiveness, recipients of PPP loans will need to organize documentation of:

- The number of employees on the payroll
- Employee pay rates
- Payroll tax filings
- Payroll costs paid in the eight weeks following disbursement of the loan
- Mortgage interest payments in the eight weeks following disbursement of the loan
- Rent or lease payments in the eight weeks following disbursement of the loan
- Utility payments in the eight weeks following disbursement of the loan
- Any advance received under the CARES Act EIDL Emergency Grant program

Lenders are responsible for determining loan forgiveness eligibility. To apply for loan forgiveness, you can submit a request to your lender.

Wouldn't you rather focus on careful and strategic planning opportunities to actually reduce your taxable income to the lowest LEGAL amounts possible?

A professional review of each situation can and should be the first course of action.

As an **Enrolled Agent** (America's Tax Expert), **Certified Tax Planner** and a **Certified Tax Coach**, it's my job to take a proactive approach with clients by performing a comprehensive and expert analysis of their tax situation and utilizing the current tax code to uncover opportunities which could potentially empower them to have a positive impact on future tax outcomes.

In depth planning is not something that can be done “after-the-fact” during tax season; that is to say – simply reviewing history. My job is to help you “write history”. I hope that the information provided to you encourages **YOU** to be **proactive** and inspire you to **reduce your tax burden!** We love tax questions and look forward to sharing our knowledge and expertise with those that want to help themselves.

Don't let the rules and regulations become your tax nightmare! If you have questions on the above material, or would like to schedule an appointment to review how you may take advantage of the many tax-saving strategies and opportunities which are available, call me today! I will be glad to schedule your personalized tax planning session.

If you found this article useful, please do not keep it a secret. Share it with a fellow business owner. Remember, friends don't let friends **OVERPAY THEIR TAXES!** I ask Better Questions – I provide Better Strategies!

Sincerely,



**Lynn A. Schmidt, EA, CTP, CTC, CFS, CSA, ARA
Enrolled Agent, Certified Tax Planner, Certified Tax Coach
Financial & Tax Strategist**

**The average number of full-time equivalent employees is determined by calculating the average number of full-time equivalent employees for each pay period falling within a month.*

***Above PPP information was collected from multiple sources including the SBA, IRS bulletins and notices, various software services and providers and is accurate as of this writing.
Due to the complex nature of the current economic situation, the extensive volume of law changes and the speed at which information is being distributed careful attention should be given to each taxpayer's individual situation to review the most up-to-date laws and interpretations.*