



PPP and Tax Planning Information

When the PPP loans first came out, we did not receive a lot of information regarding the forgiveness process and effect on tax returns, but recently we have been given additional guidance on what to expect. The forgiveness doesn't have to be picked up as income, but any expenses paid with the forgiven funds is NOT deductible in the year you can reasonably expect forgiveness. For many, this means the reduction in expenses on your tax returns will occur in 2020. This results in higher taxable income due to the expenses attributable with the debt forgiven not being deductible for tax purposes.

Here are some bullet points of recent changes regarding the PPP Loan and Forgiveness.

- New form 3508S for loan forgiveness of loans less than \$50,000
- Owner and Sole Proprietors are limited to 2.5/12 of their **2019** salary for forgiveness which also includes state and local taxes and employer retirement contributions. These are all capped at 2.5/12 of what was reported on the 2019 tax returns
- Related party rent is limited to the amount of interest owed on the property
- Business that received \$2 million or more must complete one of the two Necessity forms within 10 days of its receipt:
 - Form #3509
 - Form #3510
- The \$100,000 payroll limit on owner's compensation doesn't include employer contributions to a retirement plan, payments for group health insurance and payments of state and local taxes assessed on the compensation
- Loan Forgiveness applications are due within 10 months after their covered period (either 8 or 24 weeks after receipt of funds)
- Borrowers who received the PPP Loan and EIDL advance will have a reduction in the forgivable amount of the PPP by the amount of the EIDL advance
- In the event of an Appeal on forgiveness, the borrower must retain an attorney to represent them or represent themselves. A CPA cannot represent a borrower to the Office of Hearings and Appeals
- An Appeal must be filed within 30 days of the receipt of the final SBA loan review decision or notification by the lender of the final SBA loan review decision; whichever is earlier
- Employee paid costs for group health insurance are not considered payroll costs for PPP forgiveness
- Health insurance for self-employed individuals, general partners and S corporation owner-employees are NOT included when calculating payroll costs
- Retirement costs for self-employed individuals or general partners are NOT eligible payroll costs
- Common Area Maintenance (CAM) is not included in eligible loan forgiveness costs
- Owner-employees of either a C or S corporation that have less than a 5% ownership stake will not be subject to the owner-employee compensation rule

These are just a few of the changes or clarifications that have been provided that we think are important for you to know. The biggest clarification is the reduction in expenses being in 2020 regardless of when you apply for forgiveness. This changes a lot of planning calculations for the end of the year. Please contact us to discuss the situation and to update or have us prepare tax planning scenarios for you!

We appreciate your business and patience during this every changing tax year! Have a Happy Thanksgiving!