



Second Stimulus: Paycheck Protection Program and More

January 27, 2021

Disclaimer

- *This presentation is for educational purposes only. It should not be construed or relied on as legal advice or to create any client, advisory, fiduciary, or professional relationship between you and CLA. You should consult with your legal counsel if you have questions or concerns regarding your eligibility to participate in the Paycheck Protection Program (PPP) or other PPP-related issues.*
- *This presentation considers guidance provided by the SBA and US Department of the Treasury through **January 21, 2021**. Additional guidance is being provided on a regular basis, please refer to the US Department of the Treasury website (<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>) for recent updates.*



Agenda

1. Key Highlights of the Consolidated Appropriations Act (CAA)
2. PPP Updates
 - First and Second Draw Programs
 - Newly Eligible Entities
3. Employee Retention Credits (ERC)
4. Case Study – 2nd Draw PPP and ERC Evaluation



CAA: Key Highlights and Timeline

- Signed into law December 27, 2020
- Paycheck Protection Program – \$284B in new funding
- Expansion of the Employee Retention Credits
- Shuttered Venue Operator Grants
- Clarified that expenses covered by PPP are deductible for federal tax purposes
 - State Tax: IA, NE, ND follow Federal for Forgiveness and expense deduction
 - ◇ MN – At this point forgiveness is taxable, expenses deductible
 - ◇ SD – No State Tax





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PPP Updates

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PPP Updates

Program

PPP1

PPP2

Basics

New Funding and Updates for First-Time PPP Borrowers

Funding for Second-Draw PPP Loans

Eligibility

General: 500 Employees
Housing Coop / 501(c)(6) / Destination Marketing: 300 Employees

25% Revenue Reduction and Limit of 300 Employees
Must have spent all of PPP1 by PPP2 funding

Entity Types

Similar to Original PPP + Housing Coop + 501(c)(6) + Destination Marketing Org + News Org

Forgiveness

Similar to Original PPP + Additional Eligible Costs



2nd Draw PPP Eligibility

Max 300
employees

Calculate based on prior 12 months headcount. If affiliated entities (eg: foundation) must count employees of all affiliated entities.

Spent all PPP1
funding

Guidance has NOT indicated that forgiveness is required, but that all PPP1 funds must have been spent on eligible costs.

25% reduction
in gross
receipts

At least one calendar quarter of 2020 vs. the same quarter in 2019 must show a 25% reduction in gross receipts.



Gross Receipts – For Profit Businesses



INCLUDE

- Gross receipts inclusive of revenue based on entity's accounting method (received or accrued)
- Sales products/services, interest, dividends, rents, royalties, fees or commissions, reduced by returns and allowances



EXCLUDE

- Sales tax collected
- Amounts collected for another by a travel agent, real estate agent, advertising agent, freight forwarder or customs broker
- PPP1 revenues/forgiveness

Gross Receipts – Nonprofit Definition (IRC 6033)



INCLUDE

- In-kind contributions of assets
- Gross receipts from sale of assets or investments without reduction for basis
- Non-PPP CARES Act Funding
- Pass-through revenues
- Multi-year grants/pledges*



EXCLUDE

- In-kind contribution of services, use of space, etc.
- Realized or unrealized gain/loss on investments
- PPP1 revenues/forgiveness

- Accounting basis should be that used on the form 990
- If organizations don't account on that basis quarterly, adjust financials to the basis for the analysis

PPP Loan Sizing

First-Time Borrowers (PPP1)

- Lesser of (i) 2.5 X avg. monthly payroll and (ii) \$10 million
- Payroll includes:
 - Gross wages, max \$100k/emp.
 - Employer paid:
 - Health benefits (medical, dental, vision)
 - Retirement contribution
 - Life and disability insurance
 - State unemployment tax
- See [SBA's loan sizing guide](#)
- Can use **2019 or 2020 payroll**, whichever is larger

Second Draw (PPP2)

- Generally - Lesser of (i) 2.5 X avg. monthly payroll and (ii) \$2 million.
- NAICS 72 Entities - Lesser of (i) 3.5 X avg. monthly payroll and (ii) \$2 million
- Avg monthly payroll determined using 2019, 2020, or Twelve Trailing Months (TTM)



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Employee Retention Credits

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Employee Retention Credit - 2020



50% reduction in gross receipts for a calendar quarter OR full or partial government shut-down



Up to 50% of \$10,000 of wages and qualified benefits
(\$5,000 credit per employee max) for all of 2020



>100 employees, the employees had to be paid but not working.
≤100 employees could be working during the eligible period



Credit is on payroll taxes and filed for on form 941 at the end of a quarter, or filing a 941x to amend for the relevant quarter and claim the credit



CARES Act didn't allow for ERC and PPP; CAA amended that and allowed organizations to take both as long as "double dipping" is avoided.



Employee Retention Credit - 2021

CAA greatly expanded by this program by:

- Increasing the employee limit from 100 to 500 max for employees to be eligible if still working
- Allowing companies to access PPP and ERC (also retroactive)
- Only 20% gross receipt reduction in a quarter required (or partial or full government shutdown)
- Up to 70% of \$10,000 of wages per quarter; up to \$7,000 credit per employee for each Q1 and Q2 of calendar 2021





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Case Study B – Business evaluating 2nd Draw Loan

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Case Study- Background

\$8M budget business

Secured a \$461k PPP loan in April, 2020

Spent loan on eligible costs in 24 week period; hasn't applied for forgiveness

Reduction in earned revenue in Q2, Q3, and Q4

Reduced headcount from 30 to 20 over 2020; may reduce more if don't secure PPP2

7 staff took eligible FFCRA leave in 2020



Case Study – Steps to Analyze Opportunities

STEP 1: Pull together quarterly financials for calendar 2019 and 2020

- Adjust revenues to “gross receipts”
- Identify a quarter with a 50% reduction and subsequent quarters until reach 20% or less

	Q1	Q2	Q3	Q4
2019 (Adjusted)	\$ 1,000,000	\$ 2,000,000	\$ 2,500,000	\$ 2,500,000
2020 (Adjusted)	\$ 1,000,000	\$ 1,500,000	\$ 1,200,000	\$ 1,500,000
Change	0%	-25%	-52%	-40%



Case Study – Steps to Analyze Opportunities

STEP 2: Did you have over 50% reduction in a quarter of 2020 vs. 2019?

- If yes, calculate 2020 ERC claim amount (up to \$5k/employee)
 - ◇ 20 Employees = \$100,000 (assumes adequate eligible wages/employee)
- If no, might you qualify for “partial shut-down”

Category	2020	2021
2020 ERC	\$100,000	
PPP1	\$461,458	
2021 ERC – Q1		
2021 ERC – Q2		
PPP2		
Potential Total	\$561,458	

Case Study – Steps to Analyze Opportunities

STEP 3: Do you have enough eligible costs to reach full forgiveness of PPP1 when accounting for:

- Backing out the potential ERC
- Adjusting for the FTE reduction quotient
- Adjusting out any costs covered by restricted grants (nonprofits only)
- Backing out the FFCRA credits claimed

Category	2020	2021
2020 ERC	\$100,000	
PPP1	\$461,458	
2021 ERC – Q1		
2021 ERC – Q2		
PPP2		
Potential Total	\$561,458	

Case Study – Steps to Analyze Opportunities

STEP 4: Calculate 2019 and 2020 payroll and benefits to size your PPP2 loan

Category	2019	2020
Salaries	\$ 2,000,000	\$ 1,900,000
Less >\$100k	(275,000)	(250,000)
Medical	300,000	300,000
Retirement	150,000	175,000
Life/Disability	20,000	15,000
SUTA	20,000	19,000
Total Annual	2,215,000	2,159,000
Loan Size (2.5 mo.)	\$ 461,458	\$ 449,792

Category	2020	2021
2020 ERC	\$100,000	
PPP1	\$461,458	
PPP2		\$461,458
2021 ERC – Q1		
2021 ERC – Q2		
Potential Total	\$561,458	\$461,458



Case Study – Steps to Analyze Opportunities

STEP 5: Compare Q1 and Q2 2021 projected gross receipts to Q1 and Q2 2019

- Do you expect a 20% decline
- If YES or partial shut-down; consider 2021 ERC (up to \$7k/staff per quarter assuming adequate eligible wages)

	Q1	Q2
2019 Actual	\$ 1,000,000	\$ 2,000,000
2021 Projected	\$ 900,000	\$ 1,300,000
Change	-10%	-40%

Category	2020	2021
2020 ERC	\$100,000	
PPP1	\$461,458	
PPP2		\$461,458
2021 ERC – Q1		-
2021 ERC – Q2		\$140,000
Potential Total	\$561,458	\$601,458

Case Study – Steps to Analyze Opportunities

STEP 6: Evaluate Economic Uncertainty of the organization and comfort level with signing the PPP2 certification. Consider:

- What are you budgeting/projecting for calendar 2021?
- What would PPP2 allow you to do differently, specifically as it relates to staffing and payroll?
- What impact could another potential round of shut-downs or spikes in virus cases have on your operations or demand for product/services?
- What access to other sources of liquidity do you have?

Potential Economic Relief Summary

Category	2020	2021
2020 ERC	\$100,000	
PPP1	\$461,458	
PPP2		\$461,458
2021 ERC – Q1		-
2021 ERC – Q2		\$140,000
Potential Total	\$561,458	\$601,458





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Q&A

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Additional Resources

- CLA's Thursday Livestream Series – Each week at 2PM Central sharing the latest updates: [CLA Livestream Series : 2020 : Events : CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)
- CLA's COVID-19 Resources Hub for articles, tools, and other content: [Covid 19 : Campaign : CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)



How CLA can Help

- Employee Retention Credit Analysis and Filing Consulting
- PPP2 – Hourly consulting to assist with:
 - Eligibility
 - Loan sizing
- PPP Forgiveness assistance (PPP1 and PPP2)
 - Packages for consulting, review, or preparation of forgiveness applications





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