

A Year of Alphabet Soup

From Cray, Kaiser Ltd.

To our Friends at the EFBC:

September has been ‘our month’ to share our insights and updates around the accounting and tax planning areas of our practice. And, given the year we have all been crawling or sprinting through, we are taking this opportunity to visit some clarifications to the “alphabet soup” of recent COVID legislation.

We have seen the *CARES Act*, the *FFCR Act*, the *TRACE Act*, the *SBA* providing *EIDL Advances* along with the most popular *PPP loans* and even the *IRS* pitching in with the *EIP money* (economic impact payments). So beyond running and leading your businesses, you are required to have a bowl of alphabet soup, almost daily, to try to stay afloat in understanding how this all impacts you.

Today, we focus on our business owners, in how they are compensated and how they fit into the PPP loan forgiveness computation.

PPP Loan Forgiveness; Clarified for Owners Compensation

The Paycheck Protection Program loan continues to be on the radar of many business owners and the loan forgiveness piece provided under these loans easily sparks conversations. There continues to be some uncertainty as to the computations surrounding loan forgiveness but recently the Small Business Administration (SBA) in concert with the Department of Treasury addressed some of these uncertainties through frequently asked questions (FAQs) to assist borrowers and lenders as they begin to maneuver through the application process.

By the issuance of the FAQ’s, it was evident that payroll costs for *owners* can vary significantly in comparison to employee payroll costs and even more so when you consider the business entity who is paying the owner compensation. We are addressing some of these features below.

In general, payroll costs include cash compensation such as gross wages, bonuses, tips, commissions, and hazard pay paid during covered period. For sole proprietors or general partners, the cash compensation is based upon net profits or net earnings subject to self-employment and generally

reported on Schedule C (Form 1040) or Schedule K-1 (Form 1065). Cash compensation for corporate shareholders is reported on Form W-2. Owner compensation eligible for loan forgiveness will be based upon the amount recognized in 2019 either from the W-2, Schedule C or Schedule K-1 using a factor of 2.5/12. Simply stated if the 2019 compensation were \$80,000; the loan forgiveness piece would be \$16,667 ($\$80,000/12$ multiplied by 2.5). So even though the compensation cap is \$20,833, owners are limited to the 2019 reported amounts.

In addition to an owner's cash compensation, certain other payroll costs paid during covered period may be included for additional loan forgiveness. These additional payroll costs vary by business entity and are summarized below.

C Corporations

Employer provided benefits for health insurance, retirement and state and local taxes assessed on compensation can be included as payroll costs for purposes of additional loan forgiveness. Please note any contributions the owner makes such as through payroll withholdings would need to be excluded from the eligible amount.

Retirement contributions paid during the covered period are eligible for loan forgiveness but are pro-rated using a factor of 2.5/12 of the 2019 amount reported for each owner. Health insurance and state local taxes assessed on compensation are based upon the amounts paid during the covered period and do not appear to be pro-rated based upon 2019.

S Corporations

Employer provided benefits for retirement and state and local taxes assessed on compensation can be included as payroll costs for purposes of additional loan forgiveness. Keep in mind that any portion the owner made directly or through payroll withholdings would need to be excluded. Any 2% or greater owner cannot include any health insurance payments paid for by the employer as additional loan forgiveness. This appears to also carry through to family members who are paid as an employee of the S corporation related to 2% greater owners.

The same calculation of 2.5/12 of the 2019 employer contribution for retirement would need to be considered similar to a C corporation.

Sole Proprietors and General Partners

No additional amounts for health insurance, retirement contributions or state and local taxes assessed on compensation are eligible for additional loan forgiveness.

As a reminder, loan forgiveness for an employee's (non-owner) cash compensation is capped at \$46,154 assuming you utilize the full 24 week covered period and pay employees \$100,000 or greater. Additional amounts may be eligible for loan forgiveness for employer contributions for health insurance, retirement and state and local taxes assessed on compensation.

The loan forgiveness guidance continues to evolve, and we stand committed to assist you throughout the process. For additional support on these topics, please see our COVID-19 resource page at <https://craykaiser.com/category/covid/> or give us a call – we are here to help!