

# Restaurant Restart Operations Considerations

Karen Blacik, Restaurant Leader, BizOps CFO

JULY 7, 2020

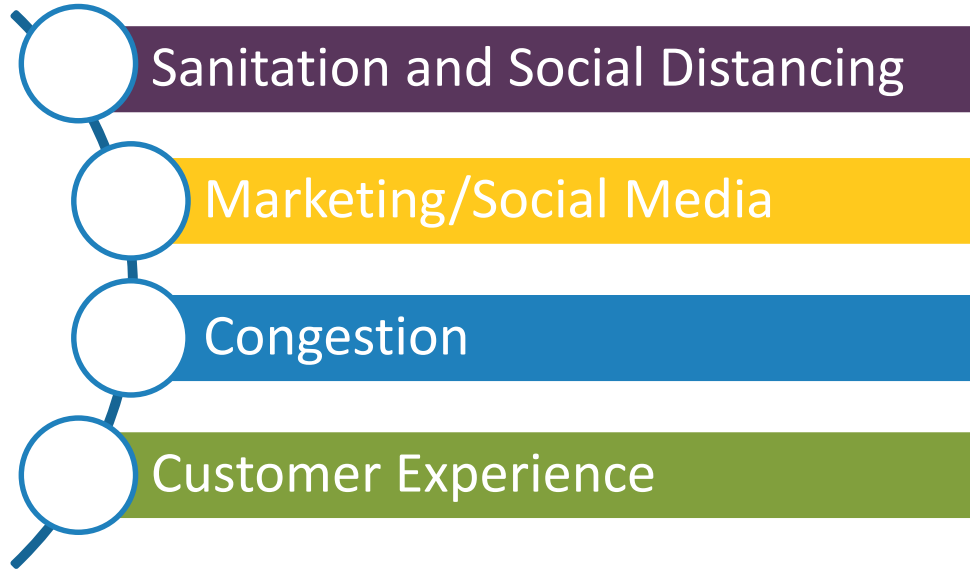
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# Operational Considerations



# Sanitation and Social Distancing

- Make cleaning a “customer visible” activity!
- Invest in adequate supply of masks, sanitizer for both the FOH and BOH.
- Consider branding opportunities with social distancing markers and masks and cleaning supplies
- Improve lighting and simplify dining room decor for ease of social distancing
- Training for staff on handling traffic flow and social distancing interactions with guests



# Marketing and Social Media

- Invest in a good website that is easy to maintain
- Tell your COVID story about how you make the customer feel safe and protected from possible COVID virus infection
- Decide on revenue levers to lean into and have the website support that off-premise activity – on-line ordering, 3<sup>rd</sup> party delivery, and catering
- Update your food photography to tie into your simplified menu.
- Use your website to advertise your re-opening
- Get active with social media posts about special new menu items, customer testimonials, etc.



# Congestion

- Designate a special to-go pickup area/entrance for to-go customers and 3<sup>rd</sup> party delivery services.
- Take reservations – invest in a reservation system to automate this process. This also allows for restricted number of seatings per hour to comply with capacity restrictions.
- Text customers when their table is ready so there are not many people hanging out near the front door.
- Monitor customer social distancing and have GM address any infractions that could be made public and result in potential closure or bad public relations.
- Use social distancing markers in dining room and at entrances so guests don't have to guess what "6 feet" looks like. If possible, brand them!
- Hire or re-deploy a front of house team member to monitor to-go and dine-in guest traffic to keep things moving and answer any guest questions.



# Guest Experience

- Make it exciting to “dine in”!
- Differentiate the dine-in experience from off-premise experience. Consider upgrading linens, high quality menu card stock and other guest-service touches.
- Re-train FOH staff on what true service really is. Make the guest really feel like they are getting the VIP treatment – be very attentive to guest needs
- Offer a simpler menu that provides: good value, some new items, and guest favorite items
- Don’t forget the “off-premise” to-go experience – continue to enhance that as well for curbside and in-house pick-up





# PPP Loan Forgiveness

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- *This presentation considers guidance provided by the SBA and US Department of the Treasury through **JUNE 29, 2020**. 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.*



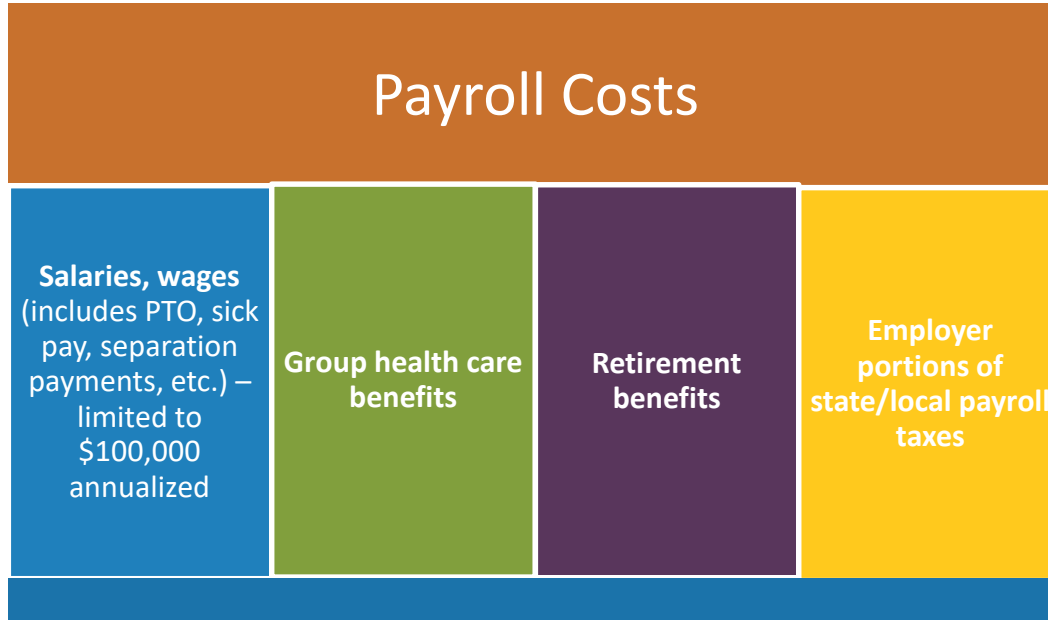


# PPP Flexibility Act and PPP Extension

- **PPP Extension just signed 7/2/20 – extends period to apply for PPP loans to August 8<sup>th</sup>, 2020**
- Flexibility Act Signed into law June 5, 2020
- Extends Covered Period to 24 weeks
  - Existing borrowers can retain 8 week period
- Set minimum term for new loans at 5 years
- Extends deferral period until forgiveness is remitted to the lender
- Borrowers must request forgiveness within 10 months from end of CP or start servicing loan



# Payroll Costs

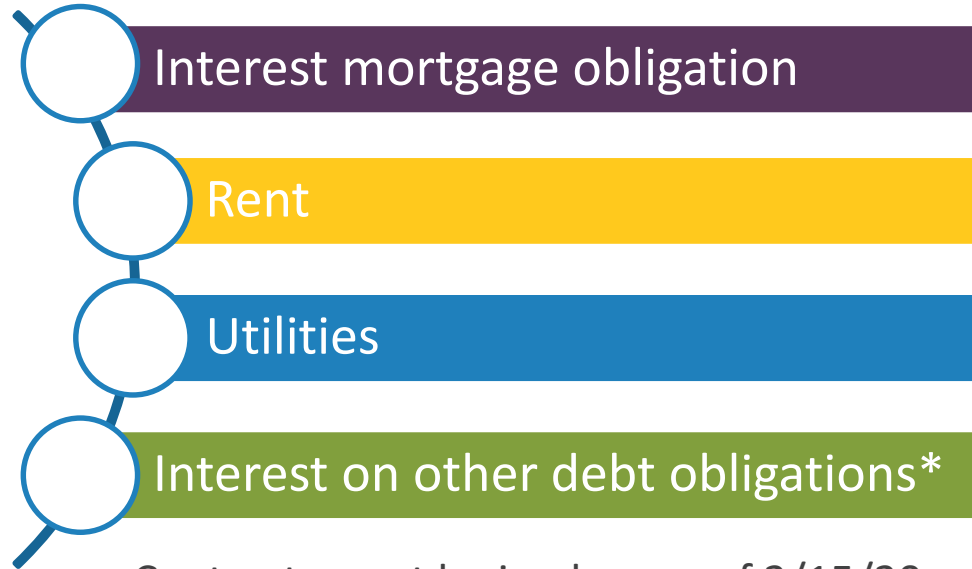


# Payroll Costs

- For bi-weekly or more frequent payrolls - ***Alternative Payroll Covered Period (APCP)*** starting first day of first pay period following PPP loan disbursement
- Submit on **Schedule A** and **Schedule A Worksheet**
- Flexibility to include costs incurred during CP or APCP and ***paid on or before next regular payroll date***
- Potential to include payroll costs incurred prior to the CP or APCP ***if paid during the CP or APCP***
- Subject to max during the period (\$100,000 prorated for period)
- Non-cash payroll costs (healthcare, retirement, ER state taxes) must be paid during CP or APCP



# Non-Payroll Costs



- Contracts must be in place as of 2/15/20
- All the above are considered non-payroll costs

\*May not be considered for forgiveness

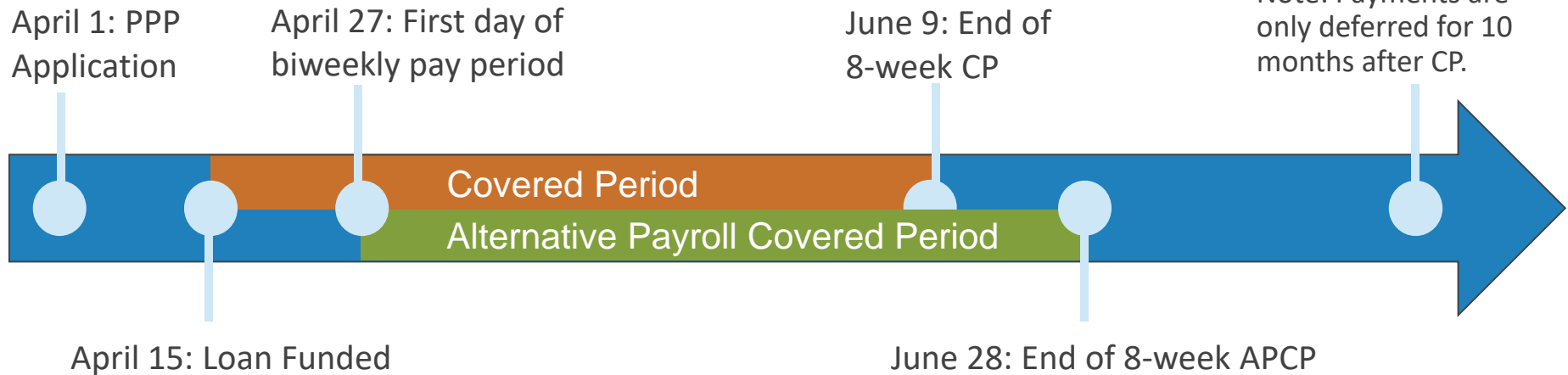
## Non-Payroll Costs

- Flexibility to include costs incurred during the CP if *paid on or before next regular billing date*
- No prepayments of future interest on mortgage debt, but unclear about rent and utilities expenses
- Potential to include additional non-payroll costs incurred prior to the CP *if paid during the CP*
- Max forgiveness amount of 40% for non-payroll costs

# How does the covered period work?

- Time period to track costs for forgiveness
- 24 weeks (8-week option for loans before June 5)
- Option for Alternative Payroll Covered Period

Application Date: Any time on or before maturity (including during CP) if used all proceeds reported on forgiveness application.  
Note: Payments are only deferred for 10 months after CP.





## PPP Flexibility Act

- At least 60% payroll test/no more than 40% nonpayroll
  - Originally interpreted as a minimum threshold for eligibility
  - Interim Final Rule on 6/10/2020 clarified that this will be applied as a proportional forgiveness test
    - ◇ treat the same as the previous 75/25 test for forgiveness limitations, just with 60/40 ratios



## PPP Flexibility Act

- Safe harbors for FTE reduction test
  - Not able to rehire previous employees AND are unable to hire similarly qualified employees for unfilled positions
  - Unable to return to same level of business activity due to compliance with OSHA, CDC or other requirements
- Allows Employer FICA deferral
- DID NOT address deductibility of expenses



# How Do FTE Safe Harbors Work?

## Safe Harbor #1

- Unable to operate at same level of business activity
- Compared to business activity before Feb. 15
- Reduction stems directly or indirectly from compliance with COVID Requirements or Guidance

## Safe Harbor #2

- If Borrower reduced FTEs from Feb. 15 to Apr. 26 AND
- FTEs restored by earlier of Dec. 31 and the application date

# IFR on Loan Forgiveness

- Concept of Paid or Incurred and Paid Eligible for Forgiveness
- Payroll Costs:
  - Bonuses and hazard pay are allowable
  - Line 9 (all subject to \$100k annualized max - \$15,385)
    - ◇ For owner-employees (W-2 in S-corp or C-corp), use 2019 W-2 wages and HC and RP contributions allowable
    - ◇ For SE use 2019 Schedule C, Line 21, no HC or RP costs
    - ◇ For General Partners, use 2019 K-1 reduced by various amounts, no HC or RP costs
  - Only include employer portion of HC and RP costs
- Nonpayroll Costs – example shows that more than 2 months of allowable costs for utilities/rent will be eligible for forgiveness
- Still don't have firm guidance on:
  - Prepayments (likely not)
  - Amounts in arrears (i.e. 2019 bonuses or RP contributions)



# What are the limitations for Cash Compensation?

## 8-week period - \$15,385

- Employees - based on comp during CP/APCP
- Owners - based on 2019 (W-2, Schedule C or K-1)

## 24-week period

- Employees - \$46,154 ( $24/52 * \$100k$  max)
- Owners - \$20,833 (2.5 months of 2019 amount subject to \$100k max)

# How to Measure FTEs?

## Methods

- Standard: Average hours paid per week divided by 40 (capped at 1.0)
- Simplified
  - 40+ per week = 1.0
  - Fewer hours = 0.5

## Exceptions for unfilled positions if...

- Offered to rehire and unable to hire similarly qualified employee
- Offered to restore hours and employee rejected
- Fired for cause during covered period (or APCP)
- Voluntarily resigned during covered period (or APCP)
- Voluntarily requested and received reduction in hours during covered period (or APCP)





# What are the limits for Health & Retirement?

## Employees

- Considered non-cash benefit
- Not subject to \$100,000 limit
- Employer contributions only (Exclude employee contributions)

## Self-Employed and General Partners

- Not eligible for forgiveness

## Owner- Employees

- Retirement: Capped at 8/52nds (8 weeks) or 2.5 months' (24 weeks) worth of the 2019 contribution amount
- Health: Excluded for S-corp (since already included in compensation)

# How to apply for Forgiveness?

## Form 3508EZ

- Eliminates many details from long form
- Eligibility
  - Self-employed with no employees
  - Meet safe harbors for no wage or headcount reductions
  - Meet safe harbors for no wage reduction and new “unable to operate at prior level of business activity”

## Form 3508

- New form released June 16
- Similar to original form, but updates for PPP Flexibility Act

# When to apply for PPP Forgiveness?

- Borrower may submit documentation to the bank that issued the loan **any time on or before maturity**
  - Includes DURING the covered period
  - Must have used all proceeds for which borrower is requesting forgiveness
  - Still need documentation (e.g. Form 941)
- Lenders waiting for more instructions
- Lender will have 60 days and SBA will have 90 days for review
- Forgiveness requested within 10 months of CP end
  - Yes - Extends deferral until forgiveness is remitted to the lender
  - No - Start servicing loan



## Resources

- Treasury Website –

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

- SBA Website –

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>

- CLA's COVID Relief Center

Bi-weekly Livestreams

<https://www.claconnect.com/COVID19>

- US Chamber of Commerce

<https://www.uschamber.com/coronavirus>



# Tax Considerations

Rachael O'Leary, Tax Manager, Retail

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## Work Opportunity Tax Credit (WOTC)

- Tax credit - \$2,400 to \$9,600
- Minimum of 120 hours in 12 months of employment
- New employee – rehires are not eligible
- Eligible groups – long-term unemployment recipients, qualified veteran, qualified ex-felon, vocational rehabilitation referral, food stamp recipient, etc.





# Employee Retention Tax Credit (ERTC)

- Tax credit up to 50% of compensation – limited to \$10,000 paid to particular worker
- Cannot be combined with Payroll Protection Program
- Applies to compensation paid between 3/13/20 – 12/31/20
- Businesses with full or partial suspended operations due to COVID-19 or decline of more than 50% when compared with the same quarter of the prior year



# Qualified Improvement Property (QIP)

- Improvements related to interior portion of a building that is nonresidential real property
- Excludes – internal structural framework of a building, enlargement of a building, elevators or escalators
- Correction to previous IRS code – TCJA of 2017
- 15 year recovery period, bonus depreciation eligible

## Business Interest Limitation

- Overall limitation has increased from 30% of adjusted taxable income to 50% for years 2019 and 2020.



## Excess Business Loss Limitation (EBLL)

- The CARES Act has suspended the EBLL through 2020.
- For taxpayers with this limitation for 2018 amended return may be necessary



## Net Operating Loss (NOL) Carryback

- NOLs can be carried back for preceding five years – for years 2018, 2019 and 2020
- Losses can be carried forward as well, important to evaluate situation to determine best outcome



# Payroll Tax Deferral

- The CARES Act allows employers to defer payment of payroll taxes
- Deferral period – 3/27/20 – 12/31/20
- Employer portion of social security tax (6.2%)
- Deferred taxes due
  - 50% December 31, 2021
  - 50% December 31, 2022





Karen Blacik; [karen.blacik@claconnect.com](mailto:karen.blacik@claconnect.com); 612-256-8344  
Rachel O'Leary; [rachael.olearly@claconnect.com](mailto:rachael.olearly@claconnect.com); 630-368-3657

