

PPP Loan Forgiveness: The Dealer Playbook

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Scott Gorden, CPA, Managing Principal
Jason Duffner, CPA, Dealership Principal
Todd Sprang, CPA, Banking Principal



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Your CLA Presenters



Scott Gorden

Managing Principal of Industry
CLA Minneapolis



Jason Duffner

Principal
CLA Dallas

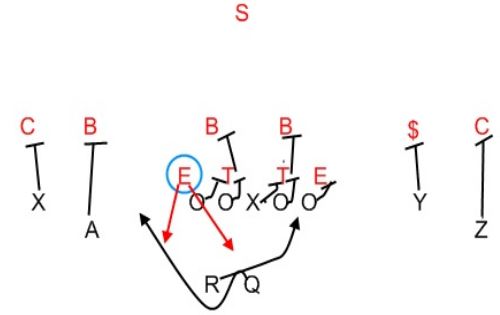


Todd Sprang

Principal
CLA Oak Brook

Discussion Topics

- PPP Loan Forgiveness
 - Case Studies
- New SBA Loan Guidance - Eligibility
 - PPP Audit Agency
- Tax Guidance on Deductibility of Forgiven Expenses
- Bank Industry Perspective on PPP Loan Forgiveness
- Restarting your Dealership



Paycheck Protection Program – Update

- Purpose: retain employees & provide liquidity
- Loan program started April 3rd (\$359B)
- Funds ran out on April 16
- Program was reloaded with Round 2 (\$310B)
 - April 24th
- Significant new loan restrictions issued by SBA
- New IRS guidance issued on forgiven expenses



PPP Loan Forgiveness

- In depth review of the current rules
- Documentation requirements for banks
- Submission process
- Areas where additional guidance needed
- Case study

PPP Loan Forgiveness Provisions

- Calculation of Loan Forgiveness Amount
 - Calculated based on 8 week period following loan origination date
 - ◇ **“Covered period”**
 - Eligible Costs include:
 - ◇ Payroll costs
 - ◇ Interest on mortgages (prior to Feb 15th)
 - ◇ Floorplan interest; not curtailments (inventory acquired prior to 2/15)
 - ◇ Rent Payments (leases in place prior to Feb 15th) – Real Estate/Equipment
 - Triple net lease agreements – real estate taxes, maintenance, insurance
 - ◇ Utilities (service originating prior to Feb 15th)



PPP Loan Forgiveness Provisions

- Potential reductions to forgiveness
 - FTE reductions
 - ◇ Comparison to lower of average FTE's over two periods
 - 2/15/19 – 6/30/19 or 1/1/20 – 2/29/20
 - Salary reductions
 - ◇ 75% minimum of 2020 Q1 average payroll
 - Additional limitation
 - ◇ 75% of the loan forgiveness must be for payroll costs
 - ◇ 25% for other costs

PPP Loan Forgiveness Provisions

- Potential reductions to forgiveness
 - **Guidance needed**
 - ◇ Ordering of the reduction computations?
 - ◇ How are FTE and compensation reductions applied?
 - To payroll costs only, or
 - To all eligible loan costs
 - ◇ Definition of FTEs
 - ◇ Salary comparison to Q1 - 12 weeks vs 8 weeks
 - Average compensation/week?

PPP Loan Forgiveness Template

Tentative Loan Forgiveness (before required reductions) **\$ 406,000**

LESS: Required Reductions in Loan Forgiveness:

Number of Employees:

Monthly Average Full Time Equivalent ("FTE") Employees for the
Covered Period (8 weeks following origination of the covered loan)**

32

Lesser of (at borrower's choice):

Monthly Average FTE's for the period February 15 to June 30, 2019

41

Monthly Average FTE's for the period January 1 to February 29, 2020**

38

38

% Reduction

15.79%

(64,105)

Compensation Reduction:

Individual Employee Compensation Reduction in Excess of 25%

Compared to the Most Recent Full Quarter Before Origination of Loan***

(30,000)

Tentative Loan Forgiveness

c) \$ 311,895

TOTAL LOAN FORGIVENESS [lesser of b) or c) above]

d) \$ 311,895

BALANCE OF LOAN NOT FORGIVEN (if any)

\$ 71,647

** A reduction in FTE's between February 15th and April 27th, 2020 is disregarded if the reduction is eliminated by June 30, 2020 for purposes of the reduction in number of employees and/or compensation.



PPP Loan Forgiveness – Salary Reduction Example

ABC DEALERSHIP Salary Reduction Sample Calculation 2020 Q1 Ended 3/31/20

	2020 Q1 Comp	Adjust for Employees Over 100k	Comp Data to Include	Ratio to Adjust for 8 Weeks	8 Week Equivalent	Actual Pay for 8 Weeks	75% Minimum	Salary Reduction
Sally	40,000	160,000	Exclude	66.67%	-	-	-	-
Tom	22,500	90,000	22,500	66.67%	15,001	-	11,251	11,251
Mary	20,000	80,000	20,000	66.67%	13,334	7,000	10,001	3,001
Jim	15,000	60,000	15,000	66.67%	10,001	-	7,500	7,500
Ted	12,500	50,000	12,500	66.67%	8,334	5,500	6,250	750
Jill	12,500	50,000	12,500	66.67%	8,334	6,000	6,250	250
Becky	22,500	90,000	22,500	66.67%	15,001	10,000	11,251	1,251
Jason	20,000	80,000	20,000	66.67%	13,334	6,504	10,001	3,497
Dave	15,000	60,000	15,000	66.67%	10,001	5,000	7,500	2,500
					93,338	40,004	\$ 70,004	\$ (30,000)



Loan Forgiveness Questions

- Can the PPP funds be used for other purposes if not forgiven?
- Can the PPP be offset against existing loans until paid out?
- Can a dealer be paid out \$100,000/dealership if they own multiple stores?
- Can I leave someone on unemployment and then provide a signing bonus for 8 weeks pay
- Do I use Cash or Accrual accounting to account for expenses?
- What impact does June 30th date have on new PPP loans?



Bank Documentation for Loan Forgiveness

- Payroll records
 - Form 941s
 - Payroll registers
- Invoices
- Lease agreements
- Bank statements
- Calculations of FTEs and salary adjustments



Bank Submission Process for Loan Forgiveness

- When can I submit my expenses to the bank for forgiveness?
 - Immediately after 8 week covered period or after June 30th cutoff
 - June 30th date is important if you rehired after covered period ended
- Banks have 60 days to approve
 - Incentives to clear loans quickly off their books



Loan Forgiveness – Client Guidance

- Complete loan forgiveness spreadsheets with known data now
- Project payroll costs in covered period
 - Adjust for employees in excess of 100k cap
- Summarize other covered expenses
 - Rent, interest, utilities (2/15 date important)
- Evaluate loan forgiveness calculation



Loan Forgiveness – Client Guidance

- Continue to monitor SBA and Treasury websites for emerging PPP guidance
- Proactively communicate with your banker
 - Forgiveness process will vary
- Build documentation file every week
 - Spreadsheet
 - Supporting documents



Case Study

Reductions to Forgivable Payroll Costs for Reduction in Employees and Wages

Number of Employees:

Monthly Average Full Time Equivalent ("FTE") Employees for the

Covered Period (8 weeks following origination of the covered loan)** 36

Lesser of:

Monthly Average FTE's for the period Feb 15 to June 30, 2019 70

Monthly Average FTE's for the period January 1 to February 29, 2020** 72 70

Quotient 51.31% (305,868)

Compensation Reduction:

Individual Employee Compensation Reduction in Excess of 25%

Compared to the Most Recent Full Quarter Before Origination of Loan*** (241,721)
80,574

STEP 5

Final adjustment for non-payroll

Non-payroll costs may not exceed 25% (80,574)

TOTAL ESTIMATED LOAN FORGIVENESS WITHOUT FTES / WAGE REDUCTIONS REINSTATED -

BALANCE OF LOAN NOT FORGIVEN (if any) \$ 1,073,701

Strategies to Maximize Forgiveness

Action	Impact
Reinstating Wage Reductions by 6/30	\$ 241,721
Re-Hire 34.1 FTEs by 6/30 (Impact to Forgiveness is \$13,118 / FTE)	305,868
Increase Payroll Costs of those under \$100,000 (Inclusive of Wage Increases and Re-Hiring)	334,154
Increase Any Eligible Costs	62,010
Increased Forgiveness	<u>\$ 1,073,701</u>





Revised PPP Eligibility Guidance

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Revised Eligibility Guidance on PPP Loan Program

- SBA released FAQ 31 on April 23, 2020
- Certification of “current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant”
- Focused on publicly traded companies
 - Applies to all applicants
- ***Did the Applicant have access to other sources of credit?***

**ARE YOU
ELIGIBLE?**



Revised Eligibility Guidance on PPP Loan Program

- Safe Harbor Opportunity to return loan proceeds by May 7th
- Fact pattern of maintaining and/or rehiring employees will be important
- Loans greater than \$2m to be audited by the SBA

**ARE YOU
ELIGIBLE?**



Revised Eligibility Guidance on PPP Loan Program

- Your documentation is important
 - Dealerships have been significantly impacted
 - What was your business condition when you applied?
 - Address both qualitative and quantitative factors
 - Document shelter in place orders
 - Prepare forecast for next 3, 6, and 9 months
 - ◇ Revenue, EBITDA and cash flows
 - Retain industry information



Newly Released IRS Tax Guidance – Non-Deductibility of Forgiven Expenses

- IRS Notice 2020-32 issued on April 30th
- No deduction allowed for expenses forgiven through PPP loan proceeds
- State guidance will need to address
- Note: Income associated with loan forgiveness is excluded from gross income (included in CARES Act)



Bank Industry Perspective on PPP Loan Forgiveness

Todd Sprang, Principal
CLA Financial Institutions Practice

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Restarting Your Dealership

- Auto demand is starting to rebound
 - 50% decline in April
 - Sales leads picking up
- Dealers are bringing employees back
 - Develop weekly plan
 - Prioritize based on demand
 - Implement staggered shifts
- Evaluate inventory levels



Restarting Your Dealership

- Implement safety protocols
 - Stock gloves, masks, and hand sanitizer
 - Incorporate plexiglass shields
 - Integrate social distancing
 - ◇ Showroom waiting areas
 - ◇ Service drive
 - ◇ New vehicle delivery
 - Customer expectations





Questions?

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COVID-19 Resources

Help plan for your business and people

- <https://www.claconnect.com/COVID19>
 - Operational Support
 - Regulatory and Tax Updates
 - Financial Management
 - Accounting and Financial Statement Guidance
 - Workforce and Human Resource Guidance
 - **Join multipart livestream series on Tuesdays and Thursdays on latest developments! Sign up on www.claconnect.com**



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Scott Gorden, CPA
Managing Principal

612-376-4751

scott.gorden@claconnect.com

Jason Duffner, CPA
Dealership Tax Principal

972-383-5756

jason.duffner@claconnect.com

Todd Sprang, CPA
Financial Institutions Principal

630-954-8175

todd.sprang@claconnect.com

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HELP YOU!

