



Accounting & Financial Statements  
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Dear Valued Clients

Most of us have had some involvement in trying to obtain the “Paycheck Protection Program” (PPP) loan under the “Care” act legislation. It has been a challenge, not only because it required gathering a lot of data and documentation, but because most of the banks were not prepared for the level of activity they faced. Some of us have obtained some level of PPP lending while others of us are still waiting on some confirmation from their chosen bank. There is a lot of confusion about rule details or changes and interpretations are numerous. One of our information sources said there have been 60 changes approved by SBA and IRS within the last month.

Here is some information we think we understand to be true, at least as of today:

1. The PPP loan is designed to help business owners continue to make payroll even when revenues are reduced. The payroll period eligible to be funded by this loan runs from 2/15/2020 to 6/30/2020, **HOWEVER**, the only payroll disbursements that qualify for potential loan forgiveness are those issued **AFTER** your PPP loan is deposited into your business account. Payroll is typically reported based upon Gross Wages or modified Gross Wages if we have a cafeteria plan or retirement plan. We will make Net Wage disbursements from the PPP loan funds and it is unclear how this will be reconciled for loan forgiveness calculations.
2. In addition to payroll, payments made, after our PPP loan is disbursed, that may be eligible for loan forgiveness include rent, utilities, mortgage interest, company portion health insurance premiums, and company portion retirement plan contributions. We believe utilities will include, Dominion Energy, Duke Power, your city services provider, telephone services, internet provider, and trash pick-up. It is unclear if rent paid to yourself or a controlled entity such as LLC, will be eligible for potential loan forgiveness.
3. We are certain the IRS quarterly report #941 will be different by June 30, 2020, we just don't know how different and what information will be required.
4. Our loan advance will not be considered income for income tax purposes. Any expenses we pay from our PPP loan proceeds that are forgiven, **WILL NOT** be deductible. If you are paying rent to yourself or controlled entity such as LLC and the loan proceeds are forgiven, we will not have a deductible expense at business level but we will have income at the personal or LLC level. If you operate your business through a “pass-through” entity such as “S” corporation or “LLC” and you have not incurred a significant decline in your business revenue, please make sure you keep up with your estimated tax payments and perhaps add an affordable amount to each quarterly payment.
5. Workmen's Comp. : If you have moved a high risk rated employee to a lower risk rated job description, even if only temporary, please make note of when this occurred and be sure to tell us so we can make note in your payroll file when it's time for a WC audit.

6. If you are paying or have paid your employees furloughed wages, meaning they are doing no work for the business and are not located on the business premises, you may want to contact your general liability insurer and ask for a reduction of premium since their exposure is reduced. Auto-Owners is said to be favorably considering this.
7. Loan forgiveness potential will be based upon a number of factors to be considered by your lender. It appears the most significant factor will be payroll and employee retention. We are fearful the loan forgiveness process will be more cumbersome and time consuming than the loan advance process as data and a multitude of support documents will probably be required. We are initiating some additional data capturing practices in hopes of minimizing the demand and we need your help.
  - We suggest you open a separate bank account to deposit loan proceeds and disburse for eligible expenses. This may eliminate the necessity for your bank to review your entire check and credit card register. Try to keep paid bills and receipts for hopeful loan forgiveness in an easily accessible file.
  - We will need to know exact amount and date PPP loan proceeds were deposited into your account
  - If you have a mortgage on your property, we need the amount of interest paid on that mortgage each month
  - If you change employee job descriptions that may provide for a lower workman's comp rate, please advise names and dates
  - If you hire, fire, furlough, or lay off any employee, we need names and dates
  - If you pay rent to more than one landlord and one of those landlords is you or an entity controlled by you, please advise.

GOOD LUCK TO ALL !

Please call if we can help or you have questions.

*Don Brown Associates*