

Paycheck Protection Program (PPP) and Employee Retention Credit

Under December's Consolidated Appropriations Act



Dale Lattz

I ILLINOIS

Agricultural & Consumer Economics

COLLEGE OF AGRICULTURAL, CONSUMER
& ENVIRONMENTAL SCIENCES



Bob Rhea

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Agenda

- PPP / EIDL Recent Updates
- Farmer PPP
- PPP 2nd Draw
- Employee Retention Credit

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PPP 2020 Recent Updates

- Expenses paid with PPP loan are deductible
- EIDL advance grants are not taxable
- EIDL advance grants do not reduce PPP forgiveness
- Simplified PPP forgiveness loans < \$150,000
- Employee Retention Credits & PPP both available to same taxpayer in 2020 & 2021
 - Can't use same wages for both benefits

2021 PPP

☐ 1st Initial Draw

For those who did not apply in 2020

☐ Recalculated 1st Draw

Applied in 2020, now qualify for more

☐ 2nd Draw

Have received 1st draw and
have **25% less** gross receipts in 2020 vs 2019

2021 PPP

- Unique calculation for Individuals that file Schedule F
 - Can use 2019 or 2020 gross income
 - Prior rules required use of net income
- Tax rules clarified – PPP proceeds **not taxable**, expenses remain deductible

Payroll Tax Credits

Sick & Family Leave Credit

For wages paid due to employee unable to work while caring for them or others, up to **\$511 per day** tax credit

Employee Retention Credit

If 2020 gross receipts **dropped 50%**, up to **\$5,000 per employee** tax credit



PPP Certifications

- Current economic uncertainty makes loan necessary to support ongoing operations
- In operation on February 15, 2020
- Not permanently closed
- U.S. principal place of residence for all employees

Farm & Ranch PPP Loan

- Loan amount based on 2019 or 2020 Form 1040 Schedule F **gross receipts** (max \$100,000)
- Max loan amount **\$20,833**
- Allows 2019 Schedule F losses to apply
- Allows 2019 Schedule F net <\$100,000 to reapply

Initial and Recalculated Draw

- Can use farmer rules
- Maximum for self employed person is **\$20,833**
- If forgiveness is completed,
not eligible for recalculated draw
- Recalculated draw covered period
begins date of original disbursement

2nd Draw PPP Loan

- 2020 gross receipts must be **25% lower** than 2019 in any 1 matching quarter
- Loan amount equal to 2020 PPP loan
 - Perhaps more if 2020 payroll higher
- Received 1st Draw PPP & before 2nd Draw PPP is disbursed, will have used the full amount for eligible expenses (2483 SD certifications)

Calculating Gross Receipts

5. Question: If I use my entity's annual income tax returns to demonstrate a gross receipts reduction of at least 25 percent, what amounts do I use to calculate gross receipts?

Answer: The amounts required to compute gross receipts varies by the entity tax return type:⁴

- For self-employed individuals other than farmers and ranchers (IRS Form 1040 Schedule C): sum of line 4 and line 7⁵
- For self-employed farmers and ranchers (IRS Form 1040 Schedule F): sum of lines 1b and 9
- For partnerships (IRS Form 1065): sum of lines 2 and 8, minus line 6
- For S-Corporations (IRS Form 1120-S): sum of lines 2 and 6, minus line 4
- For C-Corporations (IRS Form 1120): sum of lines 2 and 11, minus the sum of lines 8 and 9
- For nonprofit organizations (IRS Form 990): the sum of lines 6b(i), 6b(ii), 7b(i), 7b(ii), 8b, 9b, 10b, and 12 (column (A)) of Part VIII
- For nonprofit organizations (IRS Form 990-EZ): sum of lines 5b, 6c, 7b, and 9 of Part I.
- LLCs should follow the instructions that apply to their tax filing status in the reference periods.

Partnership PPP Loan

- Initial draw for net self employment income
if not done in 2020
- Cannot use gross farm income
- Potential for 2nd draw on SE income and payroll
- Partnership must apply, not partners

- SBA 2483

- Initial or Recalculated Draw

- SBA 2483 SD

- Second Draw

(b)(7) a news organization and supporting organizations located at [redacted] a trade or business under NAICS code 511110
in number of employees established by SBA in 13 C.F.R. 121.201 applicable revenue-based size standard established by SBA in 13
standard.
this form.
the loan application and consistent with the Paycheck Protection
ities and expenditures. If Applicant is a news organization that
all Businesses, Nonprofits, and Venues Act, proceeds of the loan
oduces or distributes locally focused or emergency information.
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ocal law.
ss Act) between January 31, 2020 and April 3, 2020 was for a
he Paycheck Protection Program Rules.
tion about me from criminal justice agencies for the purpose of
by **initialing** next to each one:
closed, and was either an eligible self-employed individual,
s for whom it paid salaries and payroll taxes or paid independent
going operations of the Applicant.
ents for mortgage interest, rent, utilities, covered operations
orker protection expenditures as specified under the Paycheck
unauthorized purposes, the federal government may hold me
rroll costs, covered mortgage interest payments, covered rent
amage costs, covered supplier costs, and covered worker
non-payroll costs. If required, the Applicant will provide to
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loans, section 7(a)(37) of the Small Business Act (15 U.S.C.
A.
r of Congress, or the spouse of such person as determined
est in the Applicant, with such terms having the meanings
ts, and Venues Act.
red as a national securities exchange under section 6 of the
rovided in all supporting documents and forms is true and
to obtain a guaranteed loan from SBA is punishable under
ve years and/or a fine of up to \$250,000; under 15 U.S.C.
and, if submitted to a federally insured institution, under
15,000,000.

Farm PPP Example

2019 Sch F

Net Loss \$ 15,000

Gross Receipts \$ 65,000

2020 PPP = \$ 0

2021 PPP = \$13,542

$65,000 / 12 * 2.5$

Farm PPP Example

2019 Sch F

Net Loss \$ 15,000

Gross Receipts **\$165,000**

2020 PPP = \$ 0

2021 PPP = \$20,833

100,000 / 12 * 2.5

Farm PPP Example

2019 Sch F

Net Income **\$ 25,000**

Gross Receipts \$ 215,000

2020 PPP = \$ 5,208

25,000 / 12 * 2.5

2021 PPP = \$15,625

100,000 / 12 * 2.5 = **20,833** less **5,208**

Employee Retention Credit

- Eligibility for 2020 modified
- Computations for 2021 enhanced
- 2020 -- \$5000 max credit per employee per YR
- 2021 -- \$7000 max credit per employee per Quarter
- Must have reduction in gross receipts
 - 50% for 2020 credit
 - 20% for 2021 credit

Employee Retention Credit

Eligible in 2020 Q3

50% Less gross receipts than 2019 Q3

Q3 Data:

Payroll

ERC

Stan the Man

\$12,000

\$ 5,000

Wilt the Stilt

\$ 6,000

\$ 3,000

Broadway Joe

\$ 2,000

\$ 1,000

Total

\$20,000

\$ 9,000

Gross Receipts Analysis

Analysis of Gross Receipts

Farmer Bob
Schedule F

| | <u>2019</u> | <u>2020</u> | <u>20 v 19</u> |
|-------|-------------|-------------|----------------|
| Q1 | 6213 | 18075 | 291% |
| Q2 | 4594 | 2855 | 62% |
| Q3 | 13731 | 10614 | 77% |
| Q4 | 44507 | 20037 | 45% |
| Total | 69045 | 51581 | |

Farmer PPP 14384

2nd Draw PPP

Must be 75% or less in any quarter for 2nd Draw PPP

For 2nd PPP, must have received a PPP in 2020 and used all proceeds properly

Employee Retention Credit

Must be 50% or less in each quarter for ERC....then:

From the quarter with 50% drop, every subsequent quarter is an eligible quarter until the end of the first quarter in which gross receipts exceed 80%.

Gross Receipts Analysis

Analysis of Gross Receipts

Farmer Kristine
Schedule F

| | <u>2019</u> | <u>2020</u> | <u>20 v 19</u> |
|-------|-------------|-------------|----------------|
| Q1 | 215839 | 295682 | 137% |
| Q2 | 994555 | 490277 | 49% |
| Q3 | 696445 | 546142 | 78% |
| Q4 | 47552 | 490277 | 1031% |
| Total | 1954391 | 1822378 | |

Farmer PPP 20833

2nd Draw PPP

Must be 75% or less in any quarter for 2nd Draw PPP

For 2nd PPP, must have received a PPP in 2020 and used all proceeds properly

Employee Retention Credit

Must be 50% or less in each quarter for ERC....then:

From the quarter with 50% drop, every subsequent quarter is an eligible quarter until the end of the first quarter in which gross receipts exceed 80%.

Current Issues

NCAIS codes may limit funding

111100 for grain farms on Sch F

Forgiveness of 1st draw farmer PPP

CAA uses 12/27, other guidance has no date

8 week covered period after 1st Draw

Makes almost impossible for both draws

Are 4797 gains in gross receipts

Only capital gains excluded or also ordinary

Forgiveness Application 3508S



Paycheck Protection Program

PPP Loan Forgiveness Application Form 3508S Revised January 19, 2021

OMB Control No.: 3245-0407
Expiration Date: 7/31/2021

A BORROWER MAY USE THIS FORM ONLY IF THE BORROWER RECEIVED A PPP LOAN OF \$150,000 OR LESS

| Business Legal Name ("Borrower") | | DBA or Tradename, if applicable | |
|----------------------------------|------------|---------------------------------|----------------|
| | | | |
| Business Address | NAICS Code | Business TIN (EIN, SSN) | Business Phone |
| | | | () - |
| | | Primary Contact | E-mail Address |
| | | | |

☐ First Draw PPP Loan ☐ Second Draw PPP Loan (check one)

SBA PPP Loan Number:

Lender PPP Loan Number:

PPP Loan Amount:

PPP Loan Disbursement Date:

Employees at Time of Loan Application:

Employees at Time of Forgiveness Application:

Covered Period:

to

If Borrower (Together with Affiliates, if Applicable) Received First Draw PPP Loans of \$2 Million or More or Second Draw PPP Loans of \$2 Million or More, Check Here: ☐

Amount of Loan Spent on Payroll Costs:

Requested Loan Forgiveness Amount:

By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The Authorized Representative of the Borrower certifies to all of the below by **initialing** next to each one.

☐ The Borrower has complied with all requirements in the Paycheck Protection Program Rules (Sections 7(a)(36), (7)(a)(37), and 7A of the Small Business Act, the PPP interim final rules, and guidance issued by SBA through the date of this application), including the rules related to:


- eligible uses of PPP loan proceeds;
- the amount of PPP loan proceeds that must be used for payroll costs;
- the calculation and documentation of the Borrower's revenue reduction (if applicable); and
- the calculation of the Borrower's Requested Loan Forgiveness Amount.

Information regarding these requirements may be found in the Form 3508S Instructions and the Paycheck Protection Program Rules.

☐ The information provided in this application is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 U.S.C. 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 U.S.C. 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 U.S.C. 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.

Forgiveness Application 3508S

- Will need 1 application for Initial Draw
- Will need separate application for Second Draw
- For loans greater than \$150,000
 - 3508 EZ
 - 3508

 **Paycheck Protection Program**
Loan Forgiveness Application Form 3508 Revised January 19, 2021

OMB Control No.: 3245-0407
Expiration Date: 7/31/2021

PPP Loan Forgiveness Calculation Form

| Business Legal Name ("Borrower") | | DBA or Tradename, if applicable | |
|----------------------------------|------------|---------------------------------|----------------|
| Business Address | NAICS Code | Business TIN (EIN, SSN) | Business Phone |
| | | Primary Contact | E-mail Address |

☐ First Draw PPP Loan ☐ Second Draw PPP Loan (check one)

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____ Employees at Time of Forgiveness Application: _____

Covered Period: _____ to _____

If Borrower (Together with Affiliates, if Applicable) Received First Draw PPP Loans of \$2 Million or More or Second Draw PPP Loans of \$2 Million or More, check here: ☐

Forgiveness Amount Calculation:

Payroll and Nonpayroll Costs _____

Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10): _____

Illinois Farm Business Farm Management (FBFM)

Find out more at **FBFM.org**

info@fbfm.org

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Upcoming Webinars

Commodity Title Choices in 2021

11:00 to noon CT, Thursday February 4th

Farmers and landowners will again have the opportunity to change commodity title choices between Agricultural Risk Coverage and Price Loss Coverage for the 2021 crop year. The deadline for the decision is March 15, 2021. This webinar will discuss these alternatives.

ECO and Crop Insurance

11:00 to noon CT, Thursday February 11th

Most farmers in the Midwest insure corn and soybeans with Revenue Protection (RP). This year, a new county-level product can be added on top of RP and other products called Enhanced Coverage Option (ECO). This webinar will discuss the crop insurance decisions, in general, and ECO in particular.

Thank You for joining us!

Please submit your questions



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