

CARES Act Paycheck Protection Program (PPP)

Managing Forgiveness as an Owner-Employee

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SPEAKERS

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Your guide forward



Disclaimer

PPP Forgiveness is an evolving process, subject to change as further guidance comes out from the SBA and US Treasury.

This presentation is for general information purposes only and should not be relied upon as a substitute for obtaining independent advice or undertaking independent research before starting the process to apply for PPP forgiveness. This presentation does not take into account any particular borrower's situation or needs.

All PPP Borrowers should obtain professional advice based on their unique situation before proceeding with the forgiving process. In addition, any implied projections or views of the hosts are their own personal opinions and are not the official position of CenterState Bank, N.A., Cherry Bekaert LLP or their respective directors or successors or assigns, and may not prove to be accurate. While the information contained herein is believed to be accurate as of the date of production, the information is subject to change and revision.

Speakers

Host



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Filing PPP Forgiveness as an Owner
Employee



Agenda

- ▶ How filing as an owner-employee is the same.
- ▶ And how it is different
 - Payroll
 - Restrictions
- ▶ Audience Q&A

Payroll Costs Incurred or Paid

- ▶ **8 weeks OR 24 weeks** of wages beginning when the loan is funded for employees whose principal residence is in the US
 - Severance pay for terminated employees included
 - Earned payrolls paid in first payroll after loan funding included
 - By starting period on day of loan funding, may include more than **56 days (or 168 days)** of wages
 - Payrolls paid on first payroll date following covered period may be also be included where applicable to payroll periods occurring during covered period

Payroll Costs Incurred or Paid

- Reasonable bonus payments can be paid provided that no single employee receives more than **\$15,385 during the 8 week period** OR **\$46,154 during the 24 week period**
- For owner-employees no more than **\$15,385 during the 8 week period** OR **\$20,833 during the 24 week period**, capped at the 2.5 month equivalent of their 2019 compensation (including health benefits and retirement plan contributions)
 - Necessary in order to avoid potential windfalls for owners where longer covered period is elected and terminated employees can't be rehired (either due to regulatory guidance or because they decline employment offers)
- Mandated paid leave wages cannot be included

Other Payroll Costs Incurred or Paid

- ▶ Qualified health care costs for employees only
 - Employer share of costs paid during the 8 (or 24) week period
 - Pre-tax amounts included in gross wages
 - Includes health care premiums and costs of a self-insured plan
 - Includes dental, vision, HDHPs, HRAs, FSAs and other usual health coverages (but not HSAs or QSEHRAs)
 - Self-insured health benefits paid from the employer's general assets or a special health plan bank account will be included
 - Prepaid premiums and contributions to health plans included
 - Can create funded trust to receive prepayments of self-insured benefits if necessary

Other Payroll Costs Incurred or Paid

- ▶ Retirement plan contributions for employees only
 - Employer share of costs paid during the 8-week (or 24-week) period
 - Pre-tax amounts included in gross wages
 - 2019 contributions not previously paid if funded in the 8-week (or 24 week) period
 - 2020 contributions for employer match, discretionary profit sharing contributions and maximum allowable defined benefit plan contributions if funded in the 8-week (or 24-week) period
 - Contributions can be prepaid and allocated to employee accounts as required later in 2020
 - Need to be sure you comply with plan provisions regarding maximum contribution

Restrictions for Owner-Employee Forgiveness Amounts

- ▶ Owner-employees includes any shareholder of a C corporation or S corporation, any member of an LLC, any partner of a partnership and all sole proprietors
 - Owner-employees are counted regardless of ownership %, regardless how small
 - Holders of unexercised options, phantom stock, SARS, or otherwise are not receiving K-1's, are not considered owner-employees

Restrictions for Owner-Employee Forgiveness Amounts

- ▶ Amount forgiven is limited to lesser of:
 - \$15,385 during an 8 week covered period (including health benefits and retirement plan contributions), or
 - \$20,833 during the 24 week period (including health benefits and retirement plan contributions), or
 - Capped at the 2.5 month equivalent of their 2019 compensation (including health benefits and retirement plan contributions)
 - This includes gross wages, SE income from K-1's or Schedule C or F net income amounts
 - General partners are capped based on 0.9235 times the sum of their 2019 SE income less unreimbursed partnership expenses, section 179 deductions, and oil and gas depletion

Examples of Owner-Employee Forgiveness - Sole Proprietor

Payroll costs during forgiveness period

▶ Wages	\$18,000
▶ Health Benefits	\$2,000
▶ Retirement Benefits	\$1,000
▶ Total	\$21,000

2019 compensation

- ▶ Schedule C revenues
\$246,000
- ▶ Schedule C net income
\$24,000
- ▶ Times 2.5/12
\$5,000

- ▶ Max Forgiveness
\$5,000

Examples of Owner-Employee Forgiveness -LLC with 2 Partners

Payroll costs during forgiveness period

▶ Partner 1 (75% owner)

▪ Guaranteed payments	\$25,000
▪ Health Benefits	\$2,000
▪ Retirement Benefits	\$1,000
▪ Total	\$28,000
▪ Capped	\$20,833

▶ Partner 2 (25% owner)

▪ Guaranteed payments \$18,000	
▪ Health Benefits	\$2,000
▪ Retirement Benefits	\$1,000
▪ Total	\$21,000
▪ Capped	\$20,833

2019 compensation

▶ Partner 1

▪ K-1 income	\$320,000
▪ Less: 179 deduct. \$10,000	
▪ Times 0.9235	\$286,285
▪ Times 2.5/12	\$59,633
▪ Eligible amount	\$20,833

▶ Partner 2

▪ K-1 income	\$80,000
▪ Less: 179 deduct. \$3,000	
▪ Times 0.9235	\$71,109
▪ Times 2.5/12	\$14,812
▪ Eligible amount	\$14,812

Examples of Owner-Employee S-corp with 2 shareholders

Payroll costs during forgiveness period

▶ Owner 1 (75% owner)	
▪ W-2wages	\$25,000
▪ Health Benefits	\$2,000
▪ Retirement Benefits \$1,000	
▪ Total	\$28,000
▪ Capped	
▪ \$20,833	
▶ Owner 2 (25% owner)	
▪ W-2 wages	\$18,000
▪ Health Benefits	\$2,000
▪ Retirement Benefits	\$1,000
▪ Total	\$21,000
▪ Capped	\$20,833

2019 compensation

▶ Owner 1	
▪ W-2 wages	\$270,000
▪ K-1 income	\$50,000
▪ Times 2.5/12	\$66,656
▪ Eligible amount	\$20,833
▶ Owner 2	
▪ W-2 wages	\$70,000
▪ K-1 income	\$16,667
▪ Times 2.5/12	\$18,053
▪ Eligible amount	\$18,053

What Questions Do You Have?

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