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Welcome to our webinar on:

SBA & Financial Navigation Tools for Construction Companies



Randy Feld

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Randy joined Boyum Barenscheer in 1991. He works with clients on maximizing their business value, valuation, succession, forecasting, business planning and auditing. His passion is working with business owners and management teams to leverage the use of their financial statements to help them gain insights into their business to ultimately become more profitable, reduce income taxes, create more value inside and outside their business and to help plan for the future. Randy's primary focuses are on serving contractors and manufacturers.

Randy enjoys assisting with all aspects of his clients' organizations by teaching and helping them to grow. He prides himself in understanding our clients' business and having a deep understanding of their industries. He values the great client relationships he has developed over the years and is a lifelong learner.

Randy and his wife, Karen, live in Eagan. They have two adult children that live in Minnesota.

Audit Partner

Education

- B.A., Concordia University – St. Paul

Accreditation

- Certified Public Accountant
- Accredited in Business Valuation

Professional Memberships

- American Institute of Certified Public Accountants (AICPA)
- MN Society of Certified Public Accountants (MNCPA)
- Construction Industry CPAs/Consultants Assoc (CICPAC)
- Association of General Contractors (AGC)
- Minnesota Association of Subcontractors
- Manufacturers Alliance

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Larry Davidson

CPA

Audit Senior Manager

Education

- Bachelor of Science/Accounting, Northern Illinois University, DeKalb, IL

Accreditation

- Certified Public Accountant

Professional Memberships

- American Institute of Certified Public Accountants (AICPA)
- MN Society of Certified Public Accountants (MNCPA)
- Construction Financial Management Association (CFMA)
- Minnesota Multi Housing Association (MMHA)

Larry Davidson joined Boyum Baren Scheer in January 2017, bringing with him over 20 years of experience in public accounting. Larry's audit experience has a concentration in HUD and other affordable housing projects with clients. He also has several years' experience as a Controller for a large construction company in St. Paul, which provides him unique insight into his HUD, real estate and other construction audit clients.

Outside the office Larry volunteers his time with his children's St. Paul schools and loves traveling and spending time with his family. A native of the Chicagoland area, he plans many trips to Chicago annually to visit with close family and friends.

Larry and his wife Siiri live in St. Paul with their two children.

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Christopher Wittich

CPA, MBT



Tax Partner

Education

- Bachelor of Accounting, University of MN – Carlson School of Management
- Masters of Business Taxation, University of MN – Carlson School of Management

Accreditation

- Certified Public Accountant

Professional Memberships

- American Institute of Certified Public Accountants (AICPA)
- MN Society of Certified Public Accountants (MNCPA)

Chris Wittich came to Boyum Barencheer in 2007 and quickly made his mark in the firm's tax department. He works with individuals, businesses, trusts, estates, and expats providing tax planning and tax compliance services. Chris enjoys challenging research projects and training others in all things tax.

His passion for educating others is evident as he is the firm's top website blogger. He has been a tax season volunteer with Prepare Prosper every year since 2001 when he was in 10th grade.

Chris is a proud AICPA Leadership Academy graduate and MNCPA Tax Conference chair. He has spoken at the AICPA Engage Conference and MNCPA Tax Conferences. In 2019, he began serving on the AICPA's Tax Practice Management Committee and on the AICPA's task force to revise the Statements on Standards for Tax Services.

Chris grew up in Eden Prairie, Minnesota but now lives in Eagan with his wife Brittany and cat Cornelius. In his spare time, Chris is busy playing golf or Ultimate Frisbee. His nickname, Ravenous Tiger, dates back to his days in drumline from high school.

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Agenda

- Housekeeping Items
- General Overview
- Understanding SBA Loans
- What Loans Make Sense For You
- Details of PPP Loans
 - Loan amounts
 - Proceeds and uses
 - Forgiveness and strategy
- Loan Strategies & Considerations
- Tools for Success
 - Big picture playbook
 - Deferral of payments
 - Financial best practices
 - Application process
 - SBA tools for calculations
 - Tax – important provisions
- Q & A

General Overview

- SBA Economic Injury Disaster Loan (EIDL)
 - EIDL Emergency Advance
- Paycheck Protection Program Loan (PPP)
- What's next?
- Existing SBA Loans
- Information Overload
- Fear Based Decisions

EIDL

ECONOMIC INJURY DISASTER LOAN

- Directly through the SBA
- \$2 million max, \$10K advance
- Up to 30 years, 3.75% or 2.75%
- Expense not covered due to COVID19
- Guarantee > \$200K
- No forgiveness except on advance
- Funding has been slow

PPP

PAYROLL PROTECTION PROGRAM

- Existing SBA Lenders
- 2.5 x average TTM payroll costs, \$10M max
- 2 years, 1% interest rate
- Payroll, interest on mortgage, rent and utilities (25% cap for non-payroll)
- No guarantee or collateral
- Yes on forgiveness, as defined
- Accepting applications April 3 or 10 2020

What Loans Make Sense For You

Details

- PPP short term infusion (tremendous terms) EIDL (long-term debt) – need to be clear on needs
- PPP – Contractor high payroll and benefits = big loan and potential forgiveness
- Self-performance is driver of need and potential under PPP
- PPP – bonding/surety companies like the additional liquidity, forgiveness, non-recourse and guarantee provisions
- Must have a plan on amount, uses and strategy around these programs: non-essential, supply chain issues, lack of work

Details of PPP Loans

UPDATES FROM SBA

Great pro-borrower news since April 2nd with SBA Interim Final Rule & PPP FAQs

1. Gross wages are used with no adjustment for Federal withholding and Social Security and Medicare when calculating payroll costs for the loan proceeds or loan forgiveness
2. Contract labor is not included in payroll costs
3. Eligibility much more generous
4. More generous definition of compensation over 100k used to determine loan
5. If you received EIDL loan between 1-31-20 and 4-3-20, you may apply for PPP, if EIDL was used for payroll costs you must use PPP loan to refinance EIDL – Can do EIDL and PPP, must be for different purposes
6. Professional Employer Organizations (PEO) or similar are payroll costs

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UPDATES FROM SBA (CONTINUED)

7. More guidance and flexibility of what period to use when calculating payroll costs for loan purposes
8. Loan rules in place at time of application will govern, can change if loan hasn't gone through yet
9. Further clarification of affiliation rules – still a bit confusing
10. Program coverage period 2-15-20 to 6-30-20
11. Loans are required to be funded by 6-30-20, forgivable and allowable uses can go past 6-30-20 – good news and more flexibility
12. Lenders may use SBA promissory note or their own
13. One provision not as flexible – Lender must make 1st disbursement of loan no later than 10 days from loan approval. 8-week period for debt forgiveness starts with loan disbursement – we think loan number is considered approval

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ELIGIBILITY

- Business less than 500 people or meet their SBA industry size standard for revenue or employees or meet alternative size standard of SBA = <\$15 million tangible equity and not more than \$5 million average net after federal tax earnings for 2 Previous years
- Non-profit -
 - 501(c)(3) tax exempt organizations, less than 500 people
 - 501(c)(9) vet organizations
- Tribal business concerns
- Self-employed and independent contractors (likely includes partners)
- Special provisions for certain food service companies and franchises
- New businesses operating by February 15, 2020, with employees or self-employed

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BORROWER CERTIFICATIONS

Certifications have significantly expanded with new SBA application released April 2, 2020 and SBA-2020-015:

8 specific items – Generally more serious and specific provisions including:

Clear message to use proceeds for intended purpose 75% or more for payroll costs

1. Documentation related to FTE's, payroll cost and related information
2. Understanding loan forgiveness provisions and amounts of non-payroll costs
3. “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the applicant” - **consider impact statement for your records – detailing reasons for loan**

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LOAN AMOUNTS

4. Loan capped at \$10M
5. 2.5 times the average monthly payroll cost measured over either 2019 calendar year or the prior 12 months
6. Seasonal business can use – average monthly payroll costs x 2.5 for the period 2-15-2019 or 3-1-19 to 6-30-19
7. Not in business from 2-15-19 to 6-30-19, you can use average monthly payroll costs 1st two months of 2020 (2-15-20 emp. or self emp.) x 2.5
8. Average monthly payroll cost is: Gross wages (wages, salaries, tips, commissions) including group health benefits and employer retirement plan contributions plus state unemployment.

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LOAN AMOUNTS –CONTINUED

- Need to subtract any payroll costs that exceed \$100k per employee, only the first \$100k counts for an employee (group health, employer retirement and state UC not a factor and fully allowed in loan calculation)
- Loans not forgiven are deferred for 6 months (interest does accrue) and amortized over two years at 1%
- Funding timing risk – is critical (especially with unemployment through 7-31-20)
- We have a calculator on the COVID 19 resource page

PPP Loan Proceeds Strategy and Compliance

- Strongly recommend the use of a separate bank account to hold the PPP funds – (consider separate cost center in accounting software)
- Only pay the qualified loan forgiveness expenses out of that separate bank account (must be 75% or more payroll and the rest only qualified expenses)
 - Payroll costs, as defined
 - Interest on mortgages
 - Rent
 - Utilities
 - Interest on other debt incurred prior to 2-15-2020

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DEBT FORGIVENESS

- Forgiveness is available on the entire PPP Loan
- Forgivable costs are the same payroll costs (as loan and proceeds) of the loan plus rent, utilities, mortgage interest incurred from the loan start (initial disbursement date) date for 8 weeks.
- Proceeds use and eligible forgiveness expenses are the same now (pre-2020 int exception)
- Maximum of 25% of the loan forgiveness can be the non-payroll costs
- Loan was intended to offset payroll costs so only 25% of the forgiveness can be rent, utilities, mortgage, interest on debt costs
- A few important additional requirements exist that can limit the PPP loan forgiveness
 - 25% reduction in wages
 - Reduction in FTE calculation – 8-week period FTE Monthly after loan starts divided by monthly FTE 2-15-19 to 6-30-19 or monthly average for Jan & Feb. 2020
 - FTE is any full time staff over 30 hours, the part time less than 30 hours are combined and averaged per 30 hours a week. Total FTE is the full time plus the part time calculation.
- **Risk in funding and not having a plan – run forgiveness calculations in advance and use of funds**

PPP

DEBT FORGIVENESS (CONTINUED)

- 25% reduction in wages from the previous quarter, there is a subtraction from the otherwise forgiven debt for the difference for all employees in that situation
- Less FTE's during the PPP loan period of 8 weeks compared to base period means reductions in forgiveness (i.e., 10% less means a 10% reduction in forgiveness)
 - If a business reduced staff from Feb 15th to April 27th then a rehire exception applies.
 - Rehire exception says that if fully staffed up to the Feb 15th level by June 30th 100% forgiveness can occur given they've met the other tests and spent the money on qualified expenses
- No guarantee or collateral on the loan, partner personal recourse kicks in if the funds are misused by the business
- **Plan to leverage to benefit the company longer term if possible – sales, EOS, new prospects, safety, quality, do things that pay multiples in the future and benefit today also.**
- **Mix of employees, temps, skill level can influence productivity and FTE numbers and resulting forgiveness**

PPP

DOCUMENTS NEEDED

- Copies 941,940, MNWH, MNUC for 2019 and first quarter 2020
- Payroll reports each pay period for preceding 12-months from loan origination
- Health insurance premiums under group plan for preceding 12 months
- Retirement plan contributions, same documents and periods
- SBA Paycheck Protection Program application (PDF fillable) : [Click Here](#)
- Bank requirements differ from bank to bank and also considering if the company is an existing customer.

PPP Loan Strategy and Considerations

- Very generous with little downside
- Key for businesses that were looking at layoffs, furloughs, cuts
- Great message to your company and team
- Important timing and layoffs can still work - before 8-week period
- 8-week covered period is very important to maximize forgiveness
- Funding date less flexible – plan & plan
- Banking considerations (funding, volume, approach & timing)
- Be strategic on PPP and or EIDL
- Bring team back by June 30th plan
- You won't qualify for employee retention credit or payroll tax deferral
- Complexity in forgiveness computation with FTE requirement and <25% compensation reductions
- Forecasting loan, use and forgiveness
- Cash basis for PPP?

PPP – Other Thoughts

Timing of work and staff with loan start

- Keep or bring back team with little work – max forgiveness dollars and % and low productivity, used all of loan funds
- Keep or bring back revenue generating and essential people – moderate forgiveness dollars and %, moderate productivity and extends loan fund dollars
- Delay bringing back or laying off and bringing back team by the end of June 2020- low forgiveness & high%, high productivity when team is back, preserves loan funds
- Coordinating team and good work loan proceeds- high forgiveness dollars and %, high productivity and potential multiplier, used all or most of loan

Big Picture Playbook

- Forecast cash flow – 13-week tool (include backlog and current projects)
- Apply for SBA loans that are appropriate
- Review unemployment, retention credits and related provisions
- Assess workforce strategy and possible changes
- Understand tax law changes that will affect cash flow
- Continue to sell and market
- Communication is key with your team, customers, vendors, banks, bonding and other partners
- Plan for bad and hope for good

Deferment and Other Cash Flow Ideas

- Small things add up
 - Owner comp adjustments, 401k loans, 401k or IRA qualified coronavirus distributions, sale lease back
- Fixed payments – align with new revenue
- Variable payments
- Contact your lenders, landlords, insurance and vendors
 - Ask for deferment
 - Ask what their policy is for deferment and get it in writing

Financial Best Practices

Monthly – all comparative

- Balance sheets
- Income Statements
- Uncompleted projects
- Know where earnings came from – schedule of earnings from projects
- Scorecard
- Project management – communication, pricing, planning

EIDL \$10,000 Advance Application

- Website to apply online: <https://covid19relief.sba.gov/#/>
- SBA behind on processing payments

PPP Calculations Workbook

- Your third party payroll processor may provide a report with your payroll costs.
- Each bank may have their own calculation workbook

Unemployment Benefits Expanded

- The Cares Act expands unemployment benefits for individuals that might not otherwise qualify for benefits including:
 - Self-employed individuals
 - Individuals that have exhausted their Unemployment benefits
 - S Corp owners can qualify for benefits because they are considered self-employed
- An additional \$600/week for up to 4 months – Total average benefit in MN will now be \$450 average plus \$600 federal contribution = \$1,050 per week
- MN will be processing the increases this week – back dating to 3/27
- Paid benefits cannot exceed 39 weeks

TAX – Important Provisions

- Stimulus Checks
- Retirement Plan changes
- NOLs and loss limitations
- Qualified Improvement Property Fix
- Other provisions – Completed contract method
R&D credits & 179D

Stimulus Checks = Cash Now



Maximum of \$1,200 per adult and \$500 per dependent child under age 17

- Advanced credit determined based on 2019 return if it has been filed
- If 2019 return has not been filed, determined based on 2018 return
- Credit will be calculated again in 2020, and if amount is higher in 2020 additional credit will be allowed, if the credit is lower on the 2020 return no payback is required
- Credit is reduced when income is over the threshold, reduced \$5 for every \$100 over the threshold
 - \$75,000 for single or separate; \$112,500 for head of household; \$150,000 for joint

Taxpayer must have a SSN to qualify for the credit

IRS will send direct deposit if they have that info, otherwise mail checks. Notifications about how they sent the money to come out from the IRS within 2 weeks of sending the money. Likely we will hear more specifics from the IRS about how this is all going to work administratively.

Retirement Plan Changes



Coronavirus distributions allowed from qualified plans

Requirements:

1. Take a distribution in 2020
2. Be directly impacted by coronavirus meaning they are diagnosed with it, have a spouse or dependent diagnosed, experiencing adverse financial consequences of being quarantined or furloughed or laid off, reduced hours as a result of the public health crisis

Benefits:

1. No 10% penalty for early withdrawal
2. Money can be replaced within the 3 years and counted as a rollover so it isn't taxed

RMDs are also waived for 2020 year if they haven't been taken yet. Still allowed to take them, just not required. This does not apply to a 2019 RMD that you elected to take in early 2020.

NOL and Loss Limitations

Individual NOLs for 2018, 2019, and 2020 can now be carried back 5 years

C Corp NOLs for 2018, 2019, and 2020 can now be carried back 5 years

461(l) excess business losses which limited the business loss that an individual could claim to \$500k is suspended for 2018, 2019, 2020

461(l) rules will resume in 2021 and when they do the wages will not be included in the business loss calculation which means it will end up affecting more taxpayers

163(j) interest expense limitations relaxed for 2019 and 2020 years for large businesses

Keep in mind that QBI loss limitation and carryforward rules do still apply in 2018 and 2019, so changes to a 2018 return could create different carryforwards of QBI attributes into 2019

Qualified Improvement Property Fix

Qualified Improvement Property is now permanently considered a 15 year life and eligible for bonus depreciation, this definition is retroactive to 1-1-2018 when the category of Qualified Improvement Property was created.

Amended returns can and probably should be filed for anyone with QIP placed into service in 2018 or on 2019 returns already filed as 100% bonus depreciation will now apply.

2018 or 2019 amended returns to claim the 100% bonus might create an NOL, which with the new rules can be carried back 5 years so the potential for refunds is significant, but can be very complex.

Example:

\$400k qualified improvement property placed in service in 2018 with 39 year life so about \$10k depreciation
Amend 2018 return to claim additional \$390k of depreciation seems easy enough

Also changes 2018 QBI, changes carryforward of QBI attributes to 2019 if the depreciation created a QBI loss,
changes 2019 depreciation, potentially creates NOL in 2018 or basis or passive losses that carry into 2019

Construction Tax Methods

Small business rules for business with average gross receipts under \$26M:

1. Cash basis accounting allowed
2. Completed Contract allowed – no requirement for percentage of completion
3. UNICAP exemption

Section 179D deduction

R&D credit studies for IRS and MN

Items that are still unknown

- Self employment applications for PPP loans
- Partnership and guaranteed payments for PPP loans
- How paybacks on qualified coronavirus distributions will work
- Amended returns or how loss limitations and NOLs will be administered

Q&A

Disclaimer – we will get through as many as we can in the half hour allotted and will be posting the slides, tools and video recording within 24 hours of this webinar on our website. We will be working on posting the Questions and Answers as fast as we can and also responding to emails and phone calls, please allow 36 hours for this. We apologize in advance for our delay. Thank you again for joining.



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