



Avizo Group, Inc. is a CPA consulting firm with over 30 years' experience in assisting small business owners with their practice's compliance and growth strategies. The following answers are provided in good faith with our current understanding of the CARES Act programs, as of April 10, 2020 with a revision on April 15th due to new regulations released on April 14th. Our website, www.avizogroup.com contains a page dedicated to providing free resources to assist with your understanding of coronavirus relief efforts. If you have any specific questions, need more advice, or want help with submitting for these loan programs, please reach out to our Coronavirus Task Force by emailing covid19@avizogroup.com.

Payment Protection Program: Application Process & Calculations

Can we apply for PPP with multiple banks?

No, you are only allowed one PPP loan, so you need to apply at one bank.

If we wait to get a PPP loan, do we run the risk of it not being available? Is it important to get the PPP in as soon as possible? What if my area will peak in 3 weeks and I need it more for 8 weeks after that and then what if I wait and there is no more money left??

This is a first-come-first-served program. Although the program is open until June 30, 2020, we encourage you to apply as quickly as you can because there is a funding cap of \$350 billion and lenders need time to process your loan, so waiting can potentially put you at risk for not receiving a loan. Treasury Secretary Steve Mnuchin says he will ask Congress for more funding if the current amount goes quickly, but this is not yet approved.

Can partner MD salaries (not part of payroll, paid pre-tax as a monthly draw with quarterly distributions) be included up to \$100k?

Yes. Based on new guidance issued by the SBA on April 14, partner guaranteed payments can be included in the partnership's calculation of qualified payroll.

Can we include partner physician compensation (up to \$100,000) in our "payroll" calculation for the PPP loan or just employed physicians?

Yes. Based on new guidance issued by the SBA on April 14, if partner physician compensation is calculated as a guaranteed payment, you will include it in the PPP loan calculation of the practice.

What, if any, salary is included for owners under PPP calculation?

Owners that receive a salary included in the payroll of the practice, will include income up to \$100,000 in the PPP calculation.

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Are funds from the PPP allowed to be used for Physician owner salaries? Are physician owners included in the payroll calculation for PPP?

Yes. PPP funds can be used to pay owner salaries. An owner's salary can be used in the calculation of the maximum loan amount up to the maximum per employee of \$100,000, annualized.

When we apply for the loan, can we include the amount of distribution that goes to the doctors (we are a pass-through entity) on K-1's, not W2 wages?

It depends on the type of entity. Based on new guidance issued by the SBA on April 14, payments treated as guaranteed payment or income subject to self-employment tax from an LLC or partnership are included in qualified payroll costs of the practice. Payments treated as draws from a partnership or distributions from an S-Corp do not qualify.

Do we have to subtract the state tax paid on income greater than \$100,000 when we do the PPP calculation? Is it gross wages? And does that not already include state tax?

Gross wages up to \$100,000 are included in the PPP calculation. Gross wages include the net amount of pay the employee receives as well as all of the amounts withheld from their paycheck, including but not limited to state taxes withheld. State and local taxes paid directly by the employer do count as part of your payroll costs (i.e. state unemployment insurance)

To qualify for maximum loan forgiveness, what is being considered: FTEs or the employee head count?

The guidance is still a little unclear regarding the calculation of FTEs. In most instances a full-time equivalent is an employee that works a full work-week for the employer, normally 40 hours. If an employee works less than a full work-week, divide the number of hours worked by the number of hours in a full work-week to determine the fractional employee. (Employee works 24 hours of a 40 hour work week – $24/40 = .6$ FTE)

Are 1099 wages included in the payroll cost?

No. Payments made to independent contractors are not part of your payroll costs for the PPP loan.

Does my 401k employer contribution for safe harbor and profit sharing count as part of the last 12 months wages?

Yes. The employer portion of retirement contributions are included in calculating qualified payroll costs.

Should we include contractual bonuses accrued but not yet paid?

No. Qualified wages only include amounts actually paid. When it comes to the PPP, your payroll will be limited to the wages that you are taxed on. As an owner of a corporation, this should only be the amount you have paid yourself by running payroll. This will not be owner draws, distributions, or loans to shareholders, because none of those types of transactions are subject to payroll or self-employment tax.

We have seen that payroll taxes and federal income taxes need to be deducted from your wages.

The guidance released by the SBA on 4/2/2020 made this issue very unclear. However, further guidance issued on 4/8/2020 clarified this issue in their Frequently Asked Questions (Question #16). The definition of gross payroll includes the net amount paid to the employee plus any withholding. This amount is used for the calculation of both the loan amount and forgiveness. The amount that would not be included would be the employer's share of any Federal taxes (1/2 FICA and Federal unemployment).

Payment Protection Program Fund Usage

Can PPP Loan be used to pay for vaccines?

No. PPP loan proceeds may not be used to pay for health benefits or supplies to be used on patients or the general public. However, included in the definition of "payroll costs" is a provision for employee benefits consisting of group health care coverage, including insurance premiums. By interpreting this to mean there are other group health care coverage items in addition to insurance premiums, if you are paying for health care items (vaccines, physicals, etc.) for employees, this would be included in your payroll costs.

Can this money be used to discharge loans for the practice, such as mortgage loans?

No, funds from a PPP loan may only be used to pay for interest on mortgage obligations incurred before February 15, 2020. Funds used for anything other than interest on mortgage obligations will not be forgiven.

Are phones and internet considered utilities in this scenario?

Yes. Payments on utilities, including electricity, gas, water, transportation, telephone, and Internet access for services that began before February 15, 2020 are included.

Payment Protection Program Forgiveness

We're cutting staff hours due to lack of business but if the employer chooses to pay staff their regular hours even if they didn't work them, will those hours still be forgivable under PPP?

Yes. The goal of the PPP loan is to keep paying employees. You will owe money if you do not maintain your staff and payroll.

- Number of Staff: Your loan forgiveness will be reduced if you decrease your full-time employee headcount.
- Level of Payroll: Your loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized in 2019.
- Re-Hiring: You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

Is our eligibility for the forgiven SBA loan adversely affected if some of our employee hours are cut? (Not furloughed but just cut back by between 25-75%).

For the PPP loan, you will owe money if you do not maintain your staff and payroll. Your loan forgiveness will be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized in 2019.

I was told you have to spend the money in 8 weeks, or you have to pay it back. Has to be used for payroll during that 8 weeks. 25% can be used for rent/other but still has to be used during that 8 weeks.

The *forgiveness* is calculated on how you spend the loan in the first 8 weeks. The loan proceeds should be used to cover payroll costs, and most mortgage interest, rent, and utility costs over the 8-week period after the loan is made; and employee and compensation levels should be maintained.

SBA: Is there any clarification on “employee and compensation levels are maintained.” Clause of the PPP? We dropped non-exempt staff down to 20 hours a week on 3/22. Are we obligated to maintain those 20 hours or bring them back 40 hours/week prior to all this?

Yes, to have this salary included in forgiveness, you need to maintain hours and salary. You have until June 30, 2020 to restore your full-time equivalent employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

Is it true that if we are back to same full FTE status on 6/30/20 that we averaged in the preceding 12 months that we will get full forgiveness for the portion of the loan that went toward payroll, rent and utilities even if we do intermittent layoffs during the 8 week period?

Not more than 25% of the loan forgiveness amount may be attributable to nonpayroll costs. While the Act provides that borrowers are eligible for forgiveness in an amount equal to the sum of payroll costs and any payments of mortgage interest, rent, and utilities, the Administrator has determined that the non-payroll portion of the forgivable loan amount should be limited to effectuate the core purpose of the statute and ensure finite program resources are devoted primarily to payroll. You have until June 30, 2020 to restore your full-time equivalent employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

While we are waiting for PPP application and funds, should we still be maintaining full employment to preserve the terms of forgiveness? This will get progressively harder!

No, if you need to temporarily release an employee, you may do so. There is flexibility in the program to allow businesses to hire new or returning employees by June 30 and still qualify under the head count requirements for forgiveness.

Would an employee who had to take a medical leave with a note from their doctor negatively affect the PPP loan forgiveness

If the employee earned qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act, these costs are excluded from qualified payroll costs in calculating the maximum loan amount. If the employee personally took medical leave those wages would qualify as wages in calculating the maximum loan amount to be forgiven.

If I pay an employee who is out on the 80 hours sick leave, how does that affect use of PPP?

PPP loans covers payroll costs, including costs for employee vacation, parental, family, medical, and sick leave. However, the CARES Act excludes qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116–127).

What if an employee quits or if you have to fire an employee for lack of performance, does this affect your PPP loan forgiveness? What if an employee quits...how does that affect the PPP loan reimbursement?

You would need to replace the employee who is fired or quits if you want the loan forgiveness. There are currently no caveats for these circumstances, so you need to try to maintain your previous headcount and salary levels.

If a provider is moving in April (planned since January) and we cannot replace her until the summer or fall, how will that affect the forgiveness statute? / If we let a doctor go now (she was planning to move anyway), does that count as losing staff with regard to the PPP? The doctor's salary is over \$100K.

You will need to include her salary (up to \$100,000) in the loan application amount. Losing the doctor will affect the forgiveness amount if the employee is not replaced and if at least 75% is not spent for payroll. You can repurpose the amount that doesn't go toward her pay to another approved purpose (while maintaining payroll levels), or you can hold on to the funds for emergencies and if you do not need it, just use it to pay back the principle when payments begin in 6 months.

If we end up getting bought out by a hospital group, can I still have the loan payback granted if I have employees again from June till the end of the year?

The 8-week period for forgiveness is through June 30, 2020. During the 8-week period starting from the disbursement of the loan proceeds, 75% of the PPP loan should be used for payroll and the other 25% can be used for qualifying payroll costs, utilities, rent and mortgage interest.

(Background - Privately owned practice suburbs of Philadelphia, 3 physicians) We are thinking of reducing all docs to 75% of current salary and anything above the \$100k will have to be paid back. Employees hours are really cut back but they're still being paid regular hours for now. Should we continue that since it will be forgiven? Thoughts on paying the doctors the 75%?

The purpose behind the program is to keep employees employed, not necessarily to keep them working. In order to maintain payroll and meet the 75% requirement for forgiveness, non-physician staff should maintain regular pay, whether working the full hours or not. Physicians do not benefit from any amount paid over \$15,385 (\$100,000 annually), so a cut in their pay is the best way to preserve cash. In some cases, it may even be necessary to increase pay for anyone under the \$100,000/year gross wages in order to get up to 75%.

What happens if you take the PPP loan and use it to float payroll x 8 weeks and then sometime after that 8 week mark have to close? Is the forgivable part of loan still forgiven b/c you stayed afloat and kept payroll going for those 8 weeks?

Yes, the act allows for a maximum forgiveness of 8 weeks of approved costs. The remainder will be treated as a loan.

To clarify, total payroll is to be higher than 75% regardless how it is dispersed to forgiven.

Yes. Not more than 25% of the loan forgiveness amount may be attributable to nonpayroll costs. A loan amount 75% of which is equivalent to eight weeks of payroll (8 weeks / 2.5 months = 56 days / 76 days = 74 percent rounded up to 75 percent). A note to remember, payroll is annualized and anything over \$100,000 is not included. \$100,000 annualized amounts to \$15,385 for the 8 weeks. Therefore, to qualify

for forgiveness it may be beneficial to “reward” nonphysician employees in order to meet the 75% qualification for forgiveness.

Regarding PPP- what if our payroll comes in at least 75% but number of employees decreases due to replacing 2 part timers with one full timer?

There is flexibility in the program to allow businesses to hire new or returning employees by June 30 and still qualify under the head count requirements for forgiveness. To encourage businesses to rehire employees or restore wages, the amount of loan forgiveness will be determined without regard to reductions in the number of employees or reductions in wages that occurred during the period beginning Feb. 15, 2020, and ending on the date that is 30 days after the date of the enactment of the CARES Act, if the business eliminates the reduction no later than June 30, 2020. For example, if a business lays off 50 employees on March 31, 2020, and rehires all of them before June 30, 2020, those 50 employees will be deemed to have been employed for purposes of calculating the average number of FTEs during the eight-week period beginning on the date of loan origination.

With decreased volumes physicians are using one of the three methods based on my discussions 1. Reduced employee salary to half, so they can still work but see less patients. 2. Keep salary the same but work alternate day because we need less staff 3. Furlough Very few if any are using last choice! May be fear of losing staff. Does any of these choices make our chances of Having our PPP Loan be not a forgiven loan?

Yes. The goal of the PPP loan is to keep paying employees their regular rate and hours (up to \$100,000). You will owe money if you do not maintain your staff and payroll.

- Number of Staff: Your loan forgiveness will be reduced if you decrease your full-time employee headcount.
- Level of Payroll: Your loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized in 2019.
- Re-Hiring: You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

EIDL & PPP

Can you roll the EIDL into a PPP? We have applied for the EIDL loan. If we receive PPP funds, then the amount of the EIDL loan is reduced by the PPP loan amount, correct?

If your EIDL loan was used for payroll costs, your PPP loan must be used to refinance your EIDL loan. Proceeds from any advance up to \$10,000 on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan.

You can use the PPP funds to refinance an SBA EIDL loan made between January 31, 2020 and April 3, 2020. If you received an SBA EIDL loan from January 31, 2020 through April 3, 2020, you can apply for a PPP loan.

If your EIDL loan was not used for payroll costs, you may use both. It does not affect your eligibility for a PPP loan.

If you apply for the EIDL loan, do you have to use your line of credit first? If yes, how do you bridge expenses between line of credit and EIDL loan funds?

No. Eligibility for the EIDL is based on the loss of revenue experienced as a result of the Covid-19 crisis and there is no requirement to exhaust other financing before applying. In addition, no personal guarantee is required for EIDLs under \$200,000, and the loan can be made solely upon the applicant's credit score. Initial advances of up to \$10,000 can be issued within three days and need not be repaid.

Are people getting confirmation emails when they apply for an EIDL loan? We got a confirmation # but not an email. Not sure if we should reapply.

No, but you can check the status of your loan application by going to <https://disasterloan.sba.gov/ela/> and clicking the green circle that says "Check Application Status" – you will log-in with the username and password you set when applying. [Here is a guide for the application process.](#)

Does the EIDL loan need personal guarantee by the MDs?

Yes. This is a typical SBA program in that it typically does require a personal guarantee for loan amounts over \$200,000.

Shouldn't we be going for an increase in our LOC in the meantime?

Although that decision is unique to each practice, obtaining additional sources of funds during these uncertain economic times should be considered. The processing time for the EIDL is 6-8 weeks as stated by the SBA, so any additional funds available for operation during that time period should be considered.

The information provided is based on our research and understanding coronavirus relief efforts including The Families First Coronavirus Response Act (FFCRA) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act as of **April 15, 2020**. In addition to contacting our Coronavirus Task Force, you are welcome to direct questions and clarifications directly to Earl Blackmon, a shareholder and strategic consultant with specialized expertise in physician consulting. Earl can be reached at eblackmon@avizogroup.com or by calling our office at 251-928-2443.