

**P&N**  
Postlethwaite & Netterville

## *Operating Expenditures Under PPP-2*

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Postlethwaite & Netterville, A Professional Accounting Corporation

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## *Top 7 PPP-2 Questions*

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1. Who is eligible to participate?
2. What are the new allowable expenses?
3. What types of operations expenses are covered?
4. What types of expenses are covered in the other new allowable categories?
5. What is the covered period?
6. What are some of the documentation requirements?
7. What is the interplay between PPP-2 and ERTC?



## *Who is eligible to participate?*

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- Similar to the first round of PPP: a partnership, sole proprietor or corporation, nonprofit organizations, and independent contractors that were in business on or before February 15, 2020.
- May not employ more than 300 employees (reduced from 500), and must have gross receipts during the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, or 4<sup>th</sup> quarter that shows a 25% reduction from gross receipts during the same quarter in 2019.



## *What are the new allowable expenses?*

### **Original PPP**

- ✓ Salaries and benefits
- ✓ Rent
- ✓ Interest
- ✓ Utilities

### **PPP-2**

- ✓ Operating expenditures
- ✓ Property damage costs
- ✓ Supplier costs
- ✓ Worker protection expenditures



## *Additions to Non-Payroll Costs*



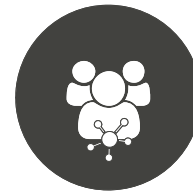
OPERATIONS



PROPERTY DAMAGE




SUPPLIER COSTS



WORKER PROTECTION





## Covered Operations Expenditures

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- Payments for any business software or cloud computing service that facilitates:
  - Business Operations
  - Human Resources
  - Product/Service Delivery
  - Sales & Billing Functions
  - Processing, Payment, or Tracking of Payroll Expenses
  - Accounting or Tracking of Supplies, Inventory, Records, and Expenses

QuickBooks

Sage Intacct

Amazon Web Service

Microsoft Azure




Zoom


IBM Cloud Services

Google Cloud Platform

Microsoft Office



\*Possible eligible expenses




## Covered Operations Expenditures


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Rationale

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<b>Capitalized vs. Expense</b>	<ul style="list-style-type: none"> <li>• Under question 11 of the SBA's IFR, specific language acknowledging the ability to capitalize these items was excluded from paragraph, "viii. Covered Operations Expenditures"</li> </ul>
<b>Interpretation</b>	<ul style="list-style-type: none"> <li>• Considering that language from the act neither confirms, nor denies the borrower's ability to capitalize software costs, it is possible to treat a software license as a long term fixed asset</li> </ul>
<b>Continuing vs. New Expenses</b>	<ul style="list-style-type: none"> <li>• Taking the same logic from previous sections in the bill, it is likely that continuing costs are covered, as well as new costs</li> <li>• For example, it is expected that many businesses are already renting a location to work out of. Even so, the cost of said rent is still covered under the act</li> <li>• The same principle should be applied to software. Many businesses already rely on internal software to complete daily business functions, and are not expected to have acquired these programs solely during their Covered Period</li> </ul>








## Covered Property Damage Costs

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<ul style="list-style-type: none"> <li>• This provision covers physical property damage, and vandalism or looting, due to public disturbances</li> </ul> <hr style="border-top: 1px dashed #ccc;"/> <ul style="list-style-type: none"> <li>- Must have occurred during 2020</li> <li>- Damages were NOT covered by insurance (or other compensation)</li> </ul>	<ul style="list-style-type: none"> <li>• What does this mean for Louisiana and the Gulf South?</li> </ul> <hr style="border-top: 1px dashed #ccc;"/> <ul style="list-style-type: none"> <li>- Does not include damages caused by natural disasters</li> </ul>
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## Covered Supplier Costs


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  - Include any expenditure paid to a supplier of goods that are essential to the operations of the entity at the time at which the expenditure was made, when the expenditure is made pursuant to a contract or purchase order in effect before the Covered Period.

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  - Perishable goods are allowed at any time before, or during the Covered Period.

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  - If an expense seems like it may be on the border of being non-essential, do not include it












## Covered Worker Protection Costs

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- Any expenditure, whether operating or capital, to help facilitate the adaptation of the business activity into compliance with government requirements or guidance.

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 <b>Covered</b>	 <b>Not Covered</b>
 <ul style="list-style-type: none"> <li>- Purchase, renovation, or maintenance of assets that allow the business to comply with social distancing/health standards</li> </ul>  <ul style="list-style-type: none"> <li>- N95 Respirators, PPE Surgical Masks, Nitrile Gloves, Surgical Gowns, Hand Sanitizer, Soap, Tissues, Disinfectant/Cleaning Services</li> </ul>	 <ul style="list-style-type: none"> <li>- Employee protective equipment that was standard <i>prior</i> to COVID-19</li> </ul>  <ul style="list-style-type: none"> <li>- Intangible property</li> <li>- Residential real property</li> </ul>



Source: Consolidated Appropriations Act, SBA IFR




## Covered Worker Protection Costs

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### Capitalizing WP Costs

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<b>Interpretation</b>	<ul style="list-style-type: none"> <li>• Specific language is included under question 11, paragraph xi. of the SBA's IFR regarding the ability to capitalize these expenses</li> </ul>
<b>What Can I Capitalize?</b>	<ul style="list-style-type: none"> <li>• "Capital expenditures" are referring to the purchase, maintenance, or renovation of assets that allow for complying with health regulations or standards related to COVID-19</li> </ul>
<b>Examples Included in the Act</b>	<ul style="list-style-type: none"> <li>• Drive-through window facility</li> <li>• Indoor, outdoor, or combined air or air pressure ventilation or filtration system</li> <li>• Physical barrier such as a sneeze guard</li> <li>• Expansion of additional indoor, outdoor, or combined business space</li> <li>• Onsite or offsite health screening capability</li> <li>• Other assets relating to the compliance of requirements or guidance</li> </ul>




Source: Consolidated Appropriations Act, SBA IFR

## *Incurred/Paid Before, During or After the CP?*

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	Operations	<ul style="list-style-type: none"> <li>Must be paid either during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period</li> </ul>
	Property Damage	<ul style="list-style-type: none"> <li>Damage must have occurred during 2020</li> </ul>
	Supplier Costs	<ul style="list-style-type: none"> <li>Order must be in effect prior to the beginning of the Covered Period</li> <li>Perishable goods are allowed to be in effect at any time before, or during the Covered Period</li> </ul>
	Worker Protection	<ul style="list-style-type: none"> <li>Must be paid either during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period</li> <li>Applicable expenses can be counted beginning March 1, 2020</li> </ul>

Source: Updated Form 3508 via SBA




## *What are some documentation requirements?*

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	Operations	<ul style="list-style-type: none"> <li>“Copy of invoices, orders, or purchase orders paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments”</li> </ul>
	Property Damage	<ul style="list-style-type: none"> <li>“Copy of invoices, orders, or purchase orders paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments, and documentation that the costs were related to property damage and vandalism or looting due to public disturbances that occurred during 2020 and such costs were not covered by insurance or other compensation”</li> </ul>
	Supplier Costs	<ul style="list-style-type: none"> <li>“Copy of contracts, orders, or purchase orders in effect at any time before the Covered Period (except for perishable goods), copy of invoices, orders, or purchase orders paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments”</li> </ul>
	Worker Protection	<ul style="list-style-type: none"> <li>“Copy of invoices, orders, or purchase orders paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments, and documentation that the expenditures were used by the Borrower to comply with applicable COVID-19 guidance during the Covered Period”</li> </ul>

Source: Updated Form 3508 via SBA



## *Accounting Methods: Revenue Reduction vs. Non-Payroll Expenses*

### Revenue Reduction

- The SBA allows for businesses to choose either an accrual, or cash based method for calculating a 25% reduction in revenue
- “gross receipts to include all revenue in whatever form **received** or **accrued** (in accordance with the entity’s accounting method)”

### Non-Payroll Expenses

- This implies that if you choose to use a cash based accounting method to determine revenue reduction, and an accrual base to determine non-payroll costs, this is acceptable

Source: Updated Form 3508 via SBA



## *PPP and ERTC 2021 Interplay*

1. Can I use the same payroll for PPP forgiveness and ERTC?
2. How are qualified wages different in the ERTC vs. the PPP?
3. How can a company illustrate that they are not “double-dipping”?







# Questions