

# FPVG Pulse

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WEEK IN REVIEW  
JUNE 5<sup>TH</sup> 2020

A Definitive Newsletter for Tax and Business  
Insight in Puerto Rico, presented by

FPV & GALINDEZ<sup>LLC</sup>





# Guidelines and Facts: EIDL and Paycheck Protection Program Updated with Flexibilization (as of June 5th, 2020)

Name of the Program	Economic Injury Disaster Loan (EIDL)	Paycheck Protection Program (PPP)
Where to Apply	The official website for the Small Business Administration ( <a href="http://www.sba.gov">www.sba.gov</a> )	Any accredited private financial institution includes banks and cooperatives.
Maximum Loan Amount	\$2,000,000	Loans can be for up to 2.5 times your average monthly payroll costs from the last 12 months. That amount is subject to a \$10 million cap.
Eligible Payroll	N/A	Your average monthly payroll costs from the last year (either the previous 12 months or calendar year 2019). Payroll costs are capped at \$100,000 per year per employee. It does not include payments to independent contractors (as they can file their individual applications).
Duration	30 years	5 years
Initial Moratorium	1 year	6 months
Interest Rate	3.75% - for-profit entities 2.75% - nonprofits	1% for any institution
Collateral	Loans over \$25,000	Not required
Personal Guarantees	Loans over \$200,000	Not required

# Guidelines and Facts: EIDL and Paycheck Protection Program Updated with Flexibilization (as of June 5th, 2020)

Name of the Program	Economic Injury Disaster Loan (EIDL)	Paycheck Protection Program (PPP)
Origination Expenses	None	None
What should the loans funds be used for?	Necessary expenses caused by the emergency. These can include payroll (see <i>use limitations below</i> ), rent, other fixed expenses, and accounts payable from the operation.	Payroll, interest, rent, and utilities.
How much of my loan will be forgiven?	The first \$10,000 are considered as EIDL Advances and are forgiven at the rate of \$1,000 per employee.	The loan proceeds used to cover payroll costs, and most mortgage interest, rent, and utility costs over the 24 week period after the loan disbursement is received. The amount to be forgiven is diluted if the number of employees or the expense of payroll is reduced (the latter by over 25%). Corrections can be made until December 31, 2020.
Uses not allowed by the program	Funds must not be used to refinance or consolidate debt that precedes the emergency. EIDL funds should not be used to cover PPP-eligible expenses if the applicant is applying for both programs.	Participants commit to using funds only for eligible expenses and 60% must be used on payroll expenses.



# What's new in PPP?

## What you Need to Know About the New Paycheck Protection Program Flexibility Act

### **New Loan Forgiveness (LF) Application?**

Yes, the Department of Treasury might be required to issue a new LF Application and Guidance.

### **New Elements as approved by:**

- Existing borrowers have the option to extend the 8 week period to 24 weeks.
- New borrowers have a 24 week period covered period, expiring on Dec 31, 2020.
- Currently, it's 75% for payroll or there's a reduction in loan forgiveness.
- The 75% payroll expenditure requirement is reduced to 60%.

### **FTE (Full Time Employees):**

- FTE Reduction Safe Harbor rolled back from June 30th to December 31<sup>st</sup>
- New exceptions for FTE Reduction calculation:
  - Could not rehire employees (for those on the payroll Feb. 15, 2020)
  - Could not find qualified employees
  - Unable to restore business activity to Feb. 15, 2020 levels due to COVID19 related operating restrictions

### **Deferral of Taxes:**

- PPP Borrowers can now qualify for the deferral of employer's share of payroll taxes available under the CARES Act
- The deferral applies only to Social Security payments (6.2%)
- 50% due on December 31, 2021, remainder due on December 31, 2022

### **Charges on Terms:**

- New loans have a 5-year maturity.
- Existing loans can be modified to a 5-year maturity if the lender agrees Interest rate to remain at 1%
- Loan payments deferred until SBA determines the amount of forgiveness
- Had been a 6-month deferral
- If the borrower doesn't apply for forgiveness within 10 months of the end of the covered period, payments will be required

**INSIGHT:** This legislation does not address the tax-deductibility of expenses paid with a forgiven PPP loan. Also, note that there is another bill, the HEROES Act, still under Congress review, which might address this and other issues regarding this program.





# PPP and Audits: Stay Informed

As the list of PPP recipients grows, so does the agencies' need for auditing across all industries. Since the first round of funding was depleted so quickly, and many large businesses were approved for loans they didn't need, the SBA is stepping up efforts to make sure every loan is going to the right business, for the right amount, for the right purpose.

The audit will be an independent review to verify the business's eligibility and ensure the proper guidance is being followed. Audits help ensure that public funds are being used appropriately.

## **Who will get audited?**

Did you know that any business that receives a PPP loan may be audited? As part of the loan conditions, you allowed the lender to share tax information with the SBA for loan compliance and SBA loan reviews.

## **What are some things that the SBA may verify?**

The auditing process will likely be overseen by the SBA's Office of Inspector General (OIG), an independent and objective oversight office. The OIG will want to ensure that the certifications you made when applying for the PPP were accurate and made in good faith.

In the forgiveness process, the auditor will attempt to confirm that the claimed expenses were indeed made, by examining your payroll records and expense documentation.

In short, the auditor will be looking for proof that your application was accurate and truthful. Your business/PPP loan could be audited after getting approved, or during the forgiveness portion of the process.

# FPVG Navigates Audits With You

Thanks to the incredible amount of clients we've had the honor of assisting, our team of consultants have practically become experts on the matter of the novel PPP Program. Fortunately for clients, your trusted team of advisors at FPV & Galíndez can now serve both roles: **consultants** and **independent auditors** to both the **borrowers** and the **lenders**.

## For Borrowers:

- We can serve as Consultants to assess the compliance, accuracy and completeness of the Loan Forgiveness application and oversee the entire funding process.
- Our team can assist with the following procedures:
  - Revision of the completed Loan Forgiveness application by the Organization
  - Revision of the calculations and other criteria required to the Organization by the Lender and SBA.
  - Assist in any new guidelines, tools or criteria issued by SBA or other Federal Agency, that provides additional requirements or explanation about the process.
  - Consult and assist over questions about the entire program and application.
  - If needed, provide presentations, seminars, videoconferencing using tools such as Microsoft Teams or Zoom and trainings as required and needed by the Organization for their finance, compliance, and Treasury departments.
  - If your Organization could be subject to an audit from SBA, due its loan amount exceeded \$2M, we can provide a more strict revision and complete an Agreed Upon Procedures whereas we will issue an attestation regarding the compliance and documentation.

## For the Lenders:

- AICPA just indicated that compliance audits could be completed to all loans regardless the \$2M threshold. The over \$2M required audit will be solely about liquidity but compliance and documentation a broadly sample selection will be completed.
- We can develop a series of audit teams to complete compliance audit over key borrowers as identified per the Lender.
- We can also provide Consulting services in terms of serving as a support team and coordinate with the Borrower's SBA and Compliance Teams.



# SMB Assistance Program

## CARES ACT 2020

Your trusted team of advisors at [FPV & Galíndez](#) wants to keep you informed about the latest changes in local and federal regulations, programs, and incentives. That's why today we are sharing the new **SMB Assistance Program**. Here's what you need to know:

About the Program	The new program is known as the <b>SMB Assistance Program</b> and is outlined in the <a href="#">Internal Revenue Circular Letter 20-26 (CC RI 20-26)</a> .
Small Businesses	<ul style="list-style-type: none"><li>• \$5,000 concession for Eligible Small Businesses</li><li>• Businesses who reported 2 - 49 employees in their Employer's Quarterly Return of Income Tax Withheld for the first quarter (which ended on March 31, 2020) are eligible.</li><li>• A fund of \$250M was allocated for this program, which means that up to 50,000 concessions will be made.</li></ul>
Medium-Sized Businesses	<ul style="list-style-type: none"><li>• \$10,000 concession for Eligible Medium-Sized Businesses</li><li>• Businesses who reported 50 - 500 employees in their Employer's Quarterly Return of Income Tax Withheld for the first quarter (which ended on March 31, 2020) are eligible.</li><li>• A fund of \$100M was allocated for this program, which means that up to 10,000 concessions will be made.</li></ul>
How is the number of employees validated?	The number of employees will be validated through a review of Form 499-R-1B (Employer's Quarterly Return of Income Tax Withheld) for the first quarter of 2020 (which ended on March 31, 2020). If you have not filed said return, the Form 499-R-1B will be used for the quarter ended on December 31, 2019.
Self-employed	The CC RI 20-26 document fails to outline the terms of eligibility for this sector. However, it is established that if the self-employed individual received the previous grant of \$1,000 granted by DDEC, this amount will be deducted from the amount received through this new program.

# SMB Assistance Program

## CARES ACT 2020

### Non-Profits

Entities that provide direct services to citizens are eligible (*although the term is not defined in CC RI 20-26*).

### Basic Requirements

- Merchant Registration Certificate valid as of May 16, 2020.
- Compliance with the Required Certifications
- Applicants must provide their bank account number to the Treasury Department (Hacienda) to receive the assistance via direct deposit.

### Required Certifications

- The money must be used to offset financial losses.
- The aid cannot be used to pay executive bonuses, refinance debts or for unauthorized expenses (necessary expenses covered or reimbursed by other public or private assistance programs, allowances, non-essential expenses to continue operations, among others).
- The funds must be used on or before December 30, 2020; otherwise it will have to be returned.
- Cannot be used for payroll payments if you have received or will apply for local Payroll Protection assistance.
- Commitment to comply with any other requirement.

### How to Apply?

The application can be submitted through the Unified Internal Revenue System (SURI), starting June 5th, 2020. Applications will be processed on a first-come, first-serve basis until all available funds are exhausted.

[Link to CC RI-20-26](#) (only available in Spanish)

[Link to Official SMB Assistance Program Guidelines](#)



# Consult the Experts

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FPV & GALINDEZ<sup>LLC</sup>



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