



QUESTCO

COVID-19 News & Updates

Our webinar will begin promptly at 3 PM CST

- Please keep video off and remain muted to preserve bandwidth and connectivity for all.
- Call quality is best using telephone audio rather than computer audio.
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Thank you for joining us!

COVID-19: Latest COVID Relief Legislation

Speakers:

- *Wendy Katz, CFO, Questco*
- *Brandon Hartsaw, COO Questco*

Agenda:

- Consolidated Appropriations Act of 2021 Highlights
- PPP Loan Round 2
- Second Draw PPP Loan Requirements
- Employee Retention Tax Credit
- Q&A

Consolidated Appropriations Act of 2021 (CAA21)

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

- ➔ Combined COVID-19 stimulus bill and omnibus spending bill for FY 2021, with a price tag of \$2.3 trillion
- ➔ Signed into law by the President on December 27, 2020
- ➔ At 5,593 pages, reportedly the longest piece of legislation ever passed by Congress
- ➔ Contains information on numerous COVID-19 relief programs, much of which is still being confirmed and evaluated in terms of practical application / compliance requirements
- ➔ Today's presentation will provide highlights on key provisions impacting small and mid-size employers and the people they employ, with an emphasis on two key programs: PPP Loans and Employee Retention Credits

January 29, 2021

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Unemployment Insurance Benefits Extension

- The Act extends the various pandemic unemployment insurance programs (including the expanded coverage to self-employed and gig workers) and provides additional \$300 per week for workers receiving unemployment benefits through March 14, 2021

2

Individual Relief Payments

- The Act provides \$600 per individual (\$1,200 for taxpayers filing jointly) payments directly to Americans, as well as \$600 for each child dependent under the age of 17.
- The payments begin to phase out at an adjusted gross income of \$75,000 for an individual and \$150,000 for joint filers

3

Expanded Paid Sick and Paid Family and Medical Leave Tax Credits

- Families First Coronavirus Response Act (FFCRA)
 - Required certain employers to provide paid sick and paid family and medical leave for certain reasons related to COVID-19 absences through 12/31/20
 - Provided employer tax credits to offset, on a dollar-for-dollar basis, the amount of wages paid to an employee due to mandate through 12/31/20
- CAA21
 - FFCRA employer mandate **NOT EXTENDED**
 - FFCRA employer tax credits **EXTENDED THREE MONTHS TO 3/31/21**
 - Same general eligibility and credit computation terms apply. FFCRA paid leave in 2020 counts toward caps on amount of pay employees are entitled to include - available hours do not restart in 2021.

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FSA Funding Relief

- The Act provides opportunities for employers to ease employee concerns over forfeiture of FSA funds by loosening rules applicable to Health and Dependent Care FSA's
 - Health and Dependent Care FSA's can allow all unused amounts from a plan year ending in 2020 to be carried over into 2021 and any amounts unused in 2021 to carryover into 2022 **or** Health and Dependent Care FSA's with a plan year ending in 2020 and 2021 may extend the grace period for submitting receipts to 12 months following the end of the plan year. Questco has elected to allow full carryover into the following plan year.
 - For the 2021 plan year, employees are allowed to make a prospective change to modify their FSA contribution without experiencing a "change in status" event. Questco has elected to adapt this change.
 - For Dependent Care FSA's, the maximum age for eligible dependents has been extended from "under 13" to "under 14". Questco has elected to adapt this change.

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Social Security Tax Deferral Program

- The ability for employers to defer payment of employer portion of social security taxes **was not** extended beyond 12/31/20
- Social security tax withholding was automatically turned back on effective 1/1/21 for any Questco employer who elected to defer their 2020 employer portion of social security taxes
- For any employer who elected to defer their 2020 employer portion of social security taxes, a statement of your deferred tax liability as of 12/31/20 will be emailed by the Accounting department and include instructions on how to request IRS remittance by Questco of any deferred balances, including client billing for any tax payments made on your behalf

PPP Loans - Round 2

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

- ➔ Reopens the PPP ("First Draw") until March 31, 2021 and adjusts certain rules that apply to both loan qualification and loan forgiveness
- ➔ Adds new "Second Draw" PPP loans which are intended for eligible borrowers that already received a PPP loan
- ➔ Provides that business expenses can still qualify for a tax deduction under the IRS Code even if paid by a PPP loan that was subsequently forgiven under the CARES Act

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- 1 **New Allowable and Forgivable Expenses**
 - “Covered Operations Expenditures”
 - Includes the addition of software and cloud computing service costs that facilitate business operations, product delivery, the processing, payment or tracking of payroll costs, human resources, sales and billing functions or accounting or tracking of supplies, inventory needs, records and expenses.
 - “Covered Property Damage Costs”
 - Includes costs related to property damage due to public disturbances that occurred during 2020, if not covered by insurance
 - “Covered Supplier Costs”
 - Includes payments to a supplier pursuant to a contract / purchase order in effect prior to taking out the loan, if expenditures were essential to recipient’s operations at the time the expenditure was made
 - “Covered Worker Protection Expenditures”
 - Includes costs to pay for PPE or other investments that would help the borrower comply with governmental guidelines related to COVID-19 between March 1, 2020 and the end of the national emergency declaration

- 2 **Definition of “payroll costs” revised to include group life, disability, vision and dental insurance**
 - Questco has previously included vision and dental insurance contributions in payroll costs; reports have recently been revised for 2021 loan applications to include group life and disability

January 29, 2021

- 3 More flexibility for borrower to select duration of “covered period” which is the period looked at for determining which loan proceeds are forgivable**
 - Can pick any period between 8 and 24 weeks after origination date of loan
 - With the ability to select a period between 8 and 24 weeks, they have eliminated the Alternative Covered Period election for borrowers with weekly or bi-weekly payroll cycles
 - \$100,000 wage cap must be pro-rated over the actual number of weeks within the covered period
- 4 Simplified, one-page loan forgiveness application for loans that are \$150,000 or less**
 - Replaces 3805S previously used for loans less than \$50,000
 - For loans between \$50,000 and \$150,000, borrower must still complete the FTE quotient and apply it against the eligible payroll costs; submission of the FTE calculation not required
 - Borrower must retain employment records for four years and all other relevant records for three years
- 5 Borrowers that returned part of their PPP loan, or did not borrow the full amount for which they were eligible, may request a modification to increase the loan amount of their First Draw to the maximum provided they have not yet submitted their application for loan forgiveness**
- 6 The above changes can be applied to any First Draw PPP loan if the borrower has not yet received forgiveness approval of its loan**

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On January 8, SBA and Treasury released:

- Revised Form 2483 (first draw loan application form)
- New Form 2483-SD (second draw loan application form)

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On January 19, SBA and Treasury released:

- Form 3508S (one-page “super” simplified loan forgiveness application for borrowers that received PPP loan of \$150,000 or less)
- Revised Form 3508 (loan forgiveness application)
- Revised Form 3508EZ (slightly simplified loan forgiveness application)

Second Draw PPP Loans - Who is Eligible?

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

- ➔ Must have no more than 300 employees
- ➔ Must have used, or will use, the full amount of the First Draw PPP loan on eligible expenses prior to distribution of Second Draw *(may vary by lender; borrower should confirm specific lender requirement)*
- ➔ Must demonstrate at least a 25% reduction in Gross Receipts in a calendar quarter during 2020 relative to the same 2019 quarter (or annual Gross Receipts in 2020 were at least 25 percent lower than annual gross receipts in 2019)
- ➔ Businesses not operating on February 15, 2020 are not eligible for Second Draw loans
- ➔ Publicly-traded companies are not eligible for Second Draw loans

Second Draw Loans – Gross Receipts

Future guidance / legislative changes could impact this information.
Please continue to monitor updates from Questco.

November 6, 2020

How to Meet the 25% Reduction:

General rule: Must demonstrate either:

- Gross receipts in any calendar quarter of 2020 were at least 25 percent lower than same quarter of 2019, **OR**
- Annual gross receipts in 2020 were at least 25 percent lower than annual gross receipts in 2019

Gross Receipts are defined as:

- All revenue in whatever form received or accrued (in accordance with the entity's accounting method, i.e., accrual or cash) from whatever source, including from the sales of products or services, interest, dividends, rents, royalties, fees, or commissions, reduced by returns and allowances but excluding net capital gains and losses
- **Excluded** from the definition are:
 - Taxes collected for and remitted to a taxing authority if included in gross or total income (i.e., taxes collected from customers, not taxes levied on the business)
 - Amounts collected for another by a travel agent, real estate agent, advertising agent, conference management service provider, freight forwarder or customs broker.
 - Any **forgiven** PPP loan or EIDL advance (*confirm with lender if First Draw PPP loan needs to be forgiven to be excluded*)

Second Draw Loans – Loan Amounts

Future guidance / legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

Maximum loan is generally 2.5x average monthly payroll costs for a 12-month period, capped at \$2.0 million

- If borrower operates with an NAICS Code 72 (hospitality industry), the loan is based on **3.5x** average monthly payroll costs (\$2.0 million cap still applies)

Can use calendar year 2019 or 2020 as reference period for measuring payroll costs

- Cannot use the 12-month period prior to the first draw loan

Businesses that are part of the same corporate group (majority owned, directly or indirectly, by a common parent) are capped at \$4.0 million in total Second Draw loans available

Second Draw PPP Loans - Application Process

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

- ➔ SBA has new application form for Second Draw loans, SBA Form 2483-SD (Lender may have equivalent form)
- ➔ If borrower is using same lender and same payroll timeframe as it used for First Draw PPP loan, and has previously submitted payroll documentation to the lender, no additional payroll documentation needs to be submitted.
- ➔ Most lenders are requesting comparative payroll costs for both 2019 and 2020 as part of application process to determine which year provides maximum loan availability

Second Draw Loans - Documentation

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

Loan Application Documentation	Lender Requirements	Questco Provided Reports
Evidence Business was in Operation on February 15, 2020	Evidence of Payroll effective February 15, 2020 (Form 941, state quarterly wage UI tax reports, filed business tax return)	Payroll Register for pay period including February 15, 2020 (showing State/Federal withholding per employee) Quarterly Tax Summaries
Support for Average Monthly Payroll Calculation	IRS Forms W-2/payroll processor reports; Records from retirement administrator to document retirement contributions; Health insurance company records	Payroll Cost Report for 2019 or 2020 (includes cash compensation; employer-paid health, dental, vision, group life and disability contributions; retirement contributions; employer state/local taxes)
Eligibility for Loan Qualification	Business Gross Receipts; Company Income Statements; IRS Corporate and Partnership Income Tax Forms (IRS Form 1065, Schedule C; 1099-Misc, Form 1120-S)	N/A – Questco does not maintain client business records

January 29, 2021

CAA21 extended and expanded the Employee Retention Tax Credit (ERC) program

- ERC extended for wages paid in the first two quarters of 2021
- Most changes are prospective (i.e., they apply only to Q1 & Q2 of 2021)
- Some changes are retroactive to March 12, 2020 (i.e., as if included in the original CARES Act that created the ERC)
- Accordingly, there is one set of rules for credits claimed with respect to wages paid in 2020 and different rules for wages paid in 2021

CAA21 repeals the provision denying the ERC to employers receiving a PPP loan

- Mechanism will be created to prevent the same wages from being used for both PPP loan forgiveness and the ERC (applies to both First and Second Draw PPP loans)

These changes will make the ERC available to many more employers

IRS guidance is expected on CAA21 changes - but current FAQ's state:

“These FAQ's do not currently reflect the changes made by the Taxpayer Certainty and Disaster Tax Relief Act of 2020; however, please continue to check back on this page for any updates related to the change in law.”

Employee Retention Tax Credit Calculation

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

	PRE-CAA2 Rules	Prospective Changes (calendar quarters beginning after 12/31/20)
DURATION OF CREDIT	The ERC applies with respect to wages paid by eligible employers after March 12, 2020 and before January 1, 2021	ERTC extended for 6 months – through June 30, 2021
AMOUNT OF CREDIT	ERC is a credit against employment taxes equal to 50% of “qualified wages” with respect to each employee for the quarter	For wages paid January 1, 2021 through June 30, 2021, the ERC rate is increased to 70%
MAXIMUM CREDIT	Total wages considered for any employee are capped at \$10,000, i.e., maximum credit is \$5,000 per employee during 2020	For 2021 per-employee limit on qualified wages increased to \$10,000 for each quarter, i.e., maximum credit is \$7,000 for each of the first two quarters of 2021, for a total credit in 2021 of \$14,000 per employee

ERC – Eligible Employers

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

	PRE-CAA2 Rules	Prospective Changes (calendar quarters beginning after 12/31/20)
ELIGIBLE EMPLOYERS, IN GENERAL	<p>The ERTC is available to any employer that:</p> <ul style="list-style-type: none">• Had operations fully or partially suspended under government orders due to COVID-19, or• Had a decline of at least 50% in gross receipts as compared to the same calendar quarter in 2019 [Note: if 2020 gross receipts rebound in later quarter to 80% or more of same 2019 quarter, then no longer eligible for the subsequent quarter]	<p>Any business with a decline in gross receipts of more than 20% compared to the same calendar quarter in 2019 is eligible. Government order suspension unchanged.</p> <p>Allows the option of determining eligibility based on gross receipts in the immediately preceding calendar quarter (compared with the corresponding quarter in 2019).</p> <p>Credit denial if receipts rebound no longer applies to Q1 or Q2 2021.</p>
TAX-EMEPTS AND GOVERNMENTS	<p>501(c) tax-exempt organizations are eligible; governments are not</p>	<p>Prohibition on governments claiming ERC lifted for certain public instrumentalities</p>

Eligible Employers – Additional Clarification

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

Which quarters are compared to determine eligibility under the Gross Receipts test?

- Generally the corresponding quarter from **2019** (unless using the alternate rule)

To Determine Eligibility for:	Compare Gross Receipts of:	Permitted Alternative
Q1 2020 (March 12-March 30)	Q1 2019 to Q1 2020	
Q2 2020	Q2 2019 to Q2 2020	
Q3 2020	Q3 2019 to Q3 2020	
Q4 2020	Q4 2019 to Q4 2020	
Q1 2021	Q1 2019 to Q1 2021	Q4 2019 to Q4 2020
Q2 2021	Q2 2019 to Q2 2021	Q1 2019 to Q1 2021

If a company meets the 50% reduced receipts test for Q2 2020, but Gross Receipts rebound to more than 80% in Q3 2020 (when compared to Q3 2019), with respect to which quarters is the company eligible for the ERC?

- The company would be an “eligible employer” for Q2 and Q3, but not Q4 (unless Gross Receipts meet the 50% test again). As such, “qualified wages” paid during Q2 and Q3 could be taken into account for purposes of claiming the ERC for Q2 and/or Q3. Note that with the prospective repeal of the receipts rebound test, the reduced receipts test (i.e., demonstrating a decline of more than 20%) will be determined for each quarter separately in 2021.

ERC – Qualified Wages

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

QUALIFIED WAGES	PRE-CAA2 Rules	Prospective Changes (calendar quarters beginning after 12/31/20)
	<p>Qualified wages are generally Social Security wages plus qualified health plan expenses.</p> <p>For employers with 100 or fewer “full-time employees” all employee wages paid during the period of government ordered suspension (or in the quarter with eligible reduced receipts) are qualified.</p> <p>Larger employers are limited to wages paid to employees not performing services due to COVID-19-related circumstances.</p> <p>In certain cases qualified wages do not include pay increases.</p>	<p>For wages paid in 2021, the more generous small employer definition of qualified wages applies to employers that have 500 or fewer employees.</p> <p>The limitation based on the employee’s past pay no longer applies for wages paid in 2021.</p>

ERC – Treasury / IRS Guidance and Direction

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

	PRE-CAA2 Rules	Prospective Changes (calendar quarters beginning after 12/31/20)
GUIDANCE GENERALLY	IRS directed to issue ERC forms, instructions, regulations and guidance, as necessary, on various issues	ERC extended for 6 months – through June 30, 2021
ADVANCE PAYMENTS	If an employer cannot claim the ERC against applicable employment taxes, any excess credit is treated as an overpayment and refunded. These excess credits may be claimed through the use of Form 7200.	Advance payments are limited to employers with an average number of “full-time employees” during 2019 of 500 or fewer. Also, the maximum advance payment is capped at 70% of the average 2019 quarterly wages.
INTERACTION WITH OTHER TAX CREDITS	Employers may not double count for purposes of the ERC any credits under sections 41 (R&D), 45S (voluntary family and medical leave credit), 51 (WOTC), or for qualified leave wages under the FFCRA	The anti-double dip rules are modified (in some cases) and prospectively extended to tax credits under sections 45A (Indian employment), 45P (active duty military), and 1396 (empowerment zones)

ERC – Retroactive Changes

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

	PRE-CAA2 Rules	Retroactive Changes (treated as if enacted in the CARES Act)
QUALIFIED HEALTH PLAN EXPENSES	Credit calculation includes employer’s “properly allocable” qualified health plan expenses with respect to the employee’s wages	Clarifies that group health plan expenses are qualified wages even if no other wages are paid to the employee
INTERACTION WITH THE PAYCHECK PROTECTION PROGRAM	Under the CARES Act, the ERC was not available if an eligible employer received a covered loan under the PPP	The section denying the ERC to employers receiving a PPP loan is repealed retroactively. Mechanisms are created to prevent the same wages from being used for both PPP loan forgiveness and the ERC
SPECIAL REPORTING RULES FOR RETROACTIVE CHANGES		Employers that have already filed a tax return with respect to applicable employment taxes before December 27, 2020, may treat certain amounts as paid in Q4 2020

Options for Retroactive ERC for 2020

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021

➔ Special 4th quarter procedure allows taxpayer to add the ERC attributable to 2nd and/or 3rd quarter qualified wages and health expenses to the original 4th quarter Form 941 (along with any other ERC for qualified wages paid in the 4th quarter) *Instructions released on 1/22/21*
Not available to PEO clients; Questco has already submitted its 4th quarter Form 941

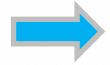
➔ Potentially taxpayer can file for retroactive ERC for 2020 using the Form 7200 as an advance against future tax credits / liability. The Form 7200 must be filed by the end of January (or prior to filing the 4th quarter Form 941, if earlier) and must be filed by the taxpayer.
Not available to PEO clients; Questco has already submitted its 4th quarter Form 941. In addition, Questco cannot allow clients to file Form 7200 as it creates administrative challenges to ensure these advances are reflected on subsequent quarterly 941's filed by the PEO. As an aggregate filer we are responsible for working with the IRS to reconcile any discrepancies between the 7200's filed by clients and the Form 941 details.

➔ Under current IRS guidance, it appears that the only way to retroactively claim the ERC after the Form 941 is filed for the quarter is through the 941X. Questco will need to assist so that the client can access the tax credit. We are waiting for guidance as to whether the retroactive credits can still be accessed for all of 2020 through a 941X for the 4th quarter.

ERC Retro Credits - What Should Clients Do Now

Future legislative changes could impact this information.
Please continue to monitor updates from Questco.

January 29, 2021



Determine whether you are eligible to participate in the ERC program

- 2020
- 2021



2020: Identify the wages eligible for credit (consider PPP loan proceed utilization; employee size; active or furloughed employee inclusion)



2021: Submit 2021 ERC Acknowledgement Form

- New form available on Questco website as of February 1, 2021
- Form to be sent with mailing of webinar recording

August 14, 2020

Questions

***Please remain muted and use the Chat feature.**

