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Pandemic Recovery Series: Session 1 of 8

Navigating the Economic Incentives

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Disclaimer

- This presentation and related materials are designed only to provide general information regarding the subject matter discussed during this presentation. The statutes, authorities, and other laws cited in this presentation are subject to change.

- This presentation and related materials are not intended to provide tax, accounting, legal, or other professional advice to any specific person or entity. Any advice or opinions regarding the application of the subject matter for a specific person or entity should be provided by a competent professional advisor based on an application of the appropriate law and authorities to the facts and circumstances applicable to that person or entity.

Pandemic Recovery Series

- Session 1 (7.2.20)
  - Navigating the Economic Incentives
    - Agenda in Slide 6
- Session 2 (7.9.20)
  - Promoting Agency Success with Emergency Preparedness Plans, Infection Control, and Quality Programs
    - Ensuring an adequate EPP, infection control and prevention, governmental agency regulations, and ensuring a quality QAPI program with the impact of COVID-19

Pandemic Recovery Series

- Session 3 (7.16.20)
  - Identifying Operational Efficiencies During Pandemic Recovery
    - Operational process improvement, telehealth/telecommunications in home care, billing impacts of COVID-19, and labor and employment aspects of operational efficiency

- Session 4 (7.23.20)
  - Getting Prepared for the Next Round
    - Agency financial survival, cash and capital management, debt management, budgeting, and meeting filing requirements to ensure compliance

Pandemic Recovery Series

- Session 5 (7.30.20)
  - Legal Aspects of Pandemic Recovery
    - Congressional focus and CARES Act legal aspects, privacy and cybersecurity, corporate governance, contract performance, and fraud and abuse
- Session 6 (8.6.20)
  - Setting Yourself Up for Financial Success
    - Use of technology for an operations advantage, functional area outsourcing, implementation of accounting best practices

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- Session 7 (8.13.20)
  - Addressing Pandemic Psychosocial Impacts While Rebuilding Agency Operations
    - Helping agency staff to thrive in a post-pandemic world, legal aspects of staff changes resulting from COVID-19, enhancing relationships with external stakeholders during rebuilding phase
- Session 8 (8.20.20)
  - Optimizing External Opportunities for Agency Growth and Expansion
    - Identification of external opportunities for agency growth, ensuring quality due diligence readiness for optimal growth outcomes, value-based care opportunities, and the home-based care transactional landscape post-COVID-19

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Agenda: Session 1

- Navigating the Economic Incentives
  - Paycheck Protection Program (PPP) Loan Forgiveness in a Nutshell
  - U.S. Department of Health & Human Services (HHS) Provider Relief Fund Stimulus Payments
  - Payroll Tax Deferral
  - Applying for an Emergency Injury Disaster Loan (EIDL)
  - How has your business been affected?
  - Have you found new efficiencies given the current environment?

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Polling Question 1

PPP Loan Program

- Original Intent of PPP Loan Program
  - To provide funding for two and one-half months of forgivable payroll expenses, assuming the borrower retains employees and maintains pay levels during the required timeframe
  - To provide funding for forgivable rent, utilities, and interest during that time, assuming those expenses do not exceed 40% of the borrower's total forgiveness

PPP Loan Program

- Expenses Eligible for Forgiveness
  - Payroll Costs: Salaries, health insurance, retirement
  - Interest on real and personal property loans
  - Rent/Lease paid for real and personal property
  - Utilities: Gas, electric, water, trash/sewer, telephone, internet
- Non-Eligible Expenses
  - Any compensation of an employee whose principal place of residence is outside of the United States
  - Compensation of an individual employee in excess of an annual salary of $100,000
  - Qualified sick and family leave wages for which a credit is allowed under sections of the Families First Coronavirus Response Act
  - Any expense not listed above as eligible

Paycheck Protection Flexibility Act (PPFA)

- On June 4th, the PPFA was signed into law and includes the following changes:
  - Extends eight (8) weeks to 24 weeks
  - Adds more exceptions/safe harbors to forgiveness reduction rules
  - Reduced the direct payroll spend requirement from 75% to 60%
  - Changes 6.30.20 to 12.31.20
  - Payroll tax deferral option is now available to PPP borrowers
  - Changes new loans from 2-year to 5-year term

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No Deduction for PPP Expenses

- IRS Notice 2020-32 on April 30, 2020
- Congress said that PPP loan forgiveness is **not** taxable
- Did not discuss if expenses used to justify forgiveness are deductible
- IRS rules that §265(a)(1) blocks deduction: Expenses funded with tax-exempt income are not deductible
- Ways & Means Chairman Neal states this is **not Congressional intent** and plans legislative fix
- Senate Finance Chairman Grassley **criticized the ruling** but did not comment on legislative fix
- Stay tuned for updates on this. There has been no additional talk as of late.

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Forgiveness Overview

- A maximum of the full loan amount plus accrued interest is eligible for forgiveness (through approval of forgiveness application)
- Cannot have forgiveness of qualified costs in excess of loan amount
- Forgiveness application is filed with the lender directly, not with the Small Business Administration (SBA)
- Application can be filed after day 56, but no later than 10 months after the end of the borrower's Covered Period
- If not filed within 10 months, the SBA will assume the borrower is not seeking forgiveness
- Lender has 90 days to make determination
- If lender denies forgiveness, the borrower can appeal to the SBA

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Forgiveness Calculation

- Total eligible expenses
- Less reduction due to Salary/Wage Reduction rule
- Less reduction due to FTE Reduction rule
- Less reduction due to not meeting 60% Payroll Cost rule
- Equals initial forgiveness amount
- Less amount received in EIDL Advance
- Equals final forgiveness amount

Reductions to Forgiveness

- The CARES Act specifically requires certain reductions in a borrower's loan forgiveness amount based on the following:
  - Reductions in employee salary (total annual salary) and wages (average wage rate) during the covered period for employees earning less than $100,000
  - Reductions in full-time equivalent (FTE) employees
  - Reduction due to payroll costs not meeting at least ***60%*** of total spent
  - EIDL grant reduces forgiveness

Current Updates on Forgiveness Process

- Forgiveness applications go to the lending bank
- Banks are not currently taking forgiveness applications
- SBA has not opened portal for banks to process applications
- Congressional bill working now to offer automatic forgiveness for loans less than $150,000; banks are lobbying for this
- Senate passed a bill to extend loan application date by five (5) more weeks
- Additional discussion about another package using the remaining $100 billion

HHS Provider Relief Funds (Stimulus)

- Grant funds provided through the CARES Act for healthcare providers
- HHS disbursed to providers through several of rounds of distributions:
  - General distribution: Medicare providers ($30 B first round, $20 B second round)
  - Targeted distributions: Rural providers ($10 B), high-impact ($12 B), Skilled Nursing Facilities (SNFs, $4.9 B), Tribal Units ($500 M)
  - Medicaid, Children's Health Insurance Program (CHIP), and Safety Net Hospital Distribution: $15 billion to Medicaid & CHIP, $10 billion to Safety Net Hospitals

HHS Provider Relief Funds (Stimulus)

- Currently only the Medicaid/CHIP distribution is open
- Must apply for a Medicaid distribution via the Provider Relief Fund (PRF) Portal
  - New Enhanced PRF Portal launched 6.10.20
  - Portal site: https://cares.linkhealth.com/#/
- Application deadline is 7.20.20

HHS Provider Relief Funds (Stimulus)

- Terms and conditions state that funds must be used for COVID-19 related expenses or lost revenue
  - "…to prevent, prepare for and respond to coronavirus and shall reimburse the Recipient only for health care related expenses or lost revenues that are attributable to coronavirus…."

- Requires reporting if the recipient received more than $150,000 total from any statute primarily making appropriations for the coronavirus response (does NOT include PPP or EIDL programs)

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Terms and Conditions

- Allowed uses are not well defined
  - Expenses directly related to and incurred because of coronavirus
  - Replace loss of income
  - How do you prove & document these?

Reporting Requirements

- Original reporting due date of 7.10.20 has been canceled as of the FAQ update on 6.13.20
- HHS is reporting all recipients of PRF payments; reports each provider name and amount received on public website
- Reporting is expected to still be required for those receiving more than $150,000 in funds
- “HHS will notify recipients of the content and due date(s) of such reports in the coming weeks” (6.13.20)

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Eligible Expenses

- Documentation of additional expenses
  - Any expense that you can directly attribute to COVID-19, document it!
  - Ideal to have a separate bank account to hold funds until documentation is gathered to justify utilizing those funds
  - Record these expenses in separate expense category on your general ledger
  - Save all invoices and/or receipts for these expenses

Eligible Expenses

- Per HHS Provider Relief Fund FAQs (6.19.20), the expenses considered eligible for reimbursement are as follows:
  - Supplies used to provide services for possible or actual COVID-19 patients
  - Equipment used to provide services for possible or actual COVID-19 patients
  - Workforce training
  - Developing and staffing emergency operations centers
  - Reporting of COVID-19 test results
  - Building temporary structures to expand capacity for COVID-19 patient care or to provide services to non-COVID-19 patients in a separate area
  - Acquiring additional resources to preserve or ***expand*** care delivery
  - Expense(s) must be incurred on or after 1.1.20

Eligible Expenses

- Examples of allowable expenses might include the following:
  - PPE orders, hand sanitizer, cleaning supplies, medical supplies, and equipment
  - Overtime wages for staff covering for those out due to COVID-19 quarantine
  - Additional professional fees: Accounting, legal, HR issues support, etc.
  - Additional hardware costs to enable work-from-home capabilities
  - Additional software costs for telehealth, work-from-home capabilities, etc.

Lost Revenue

- Lost revenue can be due to the following related to COVID-19:
  - Fewer patient visits
  - Canceled elective procedures or services
  - Loss of referrals
  - Non-admits/Not Taken Under Care (NTUC) referrals
  - Increased uncompensated care

Lost Revenue: Use of Funds

- Providers can use PRF payments to cover any costs that the lost revenue otherwise would have covered, as long as the costs prevent, prepare for, or respond to coronavirus
- These costs do not have to be specific to providing care for possible/actual coronavirus patients, but the lost revenue that the PRF payment covers must have been lost due to coronavirus

Lost Revenue: Use of Funds

- Possible uses as outlined by HHS in the FAQs
  - Employee or contractor payroll
  - Employee health insurance
  - Rent or mortgage payments
  - Equipment lease payments
  - EMR licensing fees

Further Details

- These funds do not currently have an expiration/"spend by" date
- They are meant to be used over the long term to cover additional expenses and lost revenue
- If, at the conclusion of the pandemic, providers have leftover PRF money they have not and cannot expend on permissible expenses or losses, they will be required to return this money to HHS

Further Details

- Direction for returning money has not been given yet
- Any funds found to be used inappropriately can be recouped from the provider
- PRF money cannot be used for the same purposes as the PPP loan proceeds
- HHS reserves the right to audit PRF recipients in the future

Accounting for Funds: PRF

- Highly recommend having a separate bank account to hold the funds until spending is justified
- Recommendation for PRF expenses: Use a specific method in your accounting system to differentiate the COVID-19 expenses eligible for PRF funds from other expenses
  - Separate general ledger (GL) accounts
  - Department coding
  - Class coding if using QuickBooks

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Accounting for Funds: PRF

- Record deposit as Unearned Revenue
- Transfer from Unearned Revenue to Earned Revenue when expenses or lost revenue are justified and funds are available for use
- This will be included as taxable revenue for the year in which it is recognized or the year in which it is received (depending on tax accounting basis)

Accounting for Funds: PPP

- Highly recommend having a separate bank account to hold the funds until qualified expenses are incurred; this will be a reimbursement of those qualified expenses

- For PPP expenses: There is no need to segregate these expenses in the general ledger. Simply keep them where they are normally coded because you will need all of your payroll to tie out at year-end to the payroll reports for tax purposes.

Accounting for Funds: PPP

- Record deposit as Loan Payable
- Transfer from Loan Payable to Other Income only once the forgiveness is accepted and confirmed by the bank. If you received an EIDL advance, this amount will still be due under the loan agreement.
- This will be included as taxable revenue for the year in which the forgiveness is received

Polling Question 2

Payroll Tax Deferral

- Businesses are allowed to defer the EMPLOYER portion of the Social Security FICA match (6.2% of wages)
- This can be on wages paid from 3.27.20 through 12.31.20
- Amount deferred is due as follows:
  - Fifty percent (50%) due by 12.31.21
  - Fifty percent (50%) due by 12.31.22
- Check with your payroll provider on how to technically handle this

EIDL Program

- Economic Injury Disaster Loan (EIDL) Program
- SBA loans with very favorable terms
  - 30-year loan
  - 3.75% interest / 2.75% interest for non-profits
  - Up to $2 million per borrower
  - Smaller loans require no collateral
- Catches here: These are to help get borrowers through the emergency, and distributions of net income are not allowed from a business until the loan is paid back.

What Should You Be Doing Now?

- Be conservative
- Document everything
- Keep accurate records!
- Stay tuned in to the resources around you, professionals, and associations for updates
- Do not be afraid to ask for help

Polling Question 3

Looking forward in the series

- Getting prepared to survive the next public health event or crisis
  - Are you preparing now to endure this again and to survive?
  - Have you made the most of the funds that were granted to you?
  - Do you have a solid banking relationship you can rely on?

- Set yourself up for success and thrive beyond this pandemic
  - Learn how to leverage technology as an advantage
  - Look at outsourcing functions that are not your core competency
  - Understand why it is so important to implement business best practices

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We’re here to help

- We are always available to assist agencies with coaching and advisory services, but especially through this public emergency
- Check out our website: www.knightcpagroup.com
- Reach out – P: 512.249.8342 or amy@knightcpagroup.com
- Subscribe to our YouTube channel; we post all updates there: Knight CPA Group

Pandemic Recovery Series: Next Event

- Knight CPA Group, HealthCare ConsultLink, and DLA Piper thank you for attending today's webinar

- Session 2 (7.9.20)
  - Promoting Agency Success with Emergency Preparedness Plans, Infection Control, and Quality Programs
    - Ensuring an adequate EPP, infection control and prevention, governmental agency regulations, and ensuring a quality QAPI program with the impact of COVID-19

- For additional registration information or support: Call (888) 258-1894 or email info@hc-link.com

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Questions??

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