

Robert Edwards:

Okay, here we are for the next episode of the podcast Beyond Bite Wings, the Business Side of Dentistry. Today we have with us, Lynn Ledbetter and myself Robert Edwards and Ash Faizullah.

Lynn Ledbetter:

Hello.

Ash Faizullah:

Hello.

Robert Edwards:

Hi guys. What are we going to talk about today, Ash?

Ash Faizullah:

Oh, man. The dreadful topic of COVID.

Robert Edwards:

Just what everybody wants to hear about.

Ash Faizullah:

Rona.

Robert Edwards:

Again.

Ash Faizullah:

I know, right? Every time I hear the word, I think of Voldemort. The word you're not supposed to say.

Lynn Ledbetter:

You must not be named.

Ash Faizullah:

Exactly.

Lynn Ledbetter:

Yes, the virus who must not be named. They don't want to hear about it, but they do want to hear about it.

Ash Faizullah:

That is true. There is some benefit to it. That's part of the reason why we're doing this episode today, regardless of how much we don't want to hear about it. We want to end the year on a high note. We do have a few tips that will go over a certain things.

Robert Edwards:

What's first and foremost on the client's minds now about coronavirus and just the situation for this year?

Ash Faizullah:

The number one question that I get asked a lot is regarding their PPP loan, the payroll protection program loan. They've received a certain amount of money earlier in the year that they were supposed to use towards payroll, which they have. Then after that, they're supposed to apply for forgiveness, but we've had some changes by when this money should be spent and how the application should be filled out for their forgiveness. I feel like a lot of our clients sometimes want to rush through it, because there are a couple of things that I don't think they're fully aware of.

Lynn Ledbetter:

Because the calls right now are notoriously, "It's time to apply for forgiveness. I'm ready. Let's do it." Is that what we would say? Well, "Yeah, let's get on this. Let's get it done." Or what's our advice on that.

Ash Faizullah:

A lot of the people that got their PPP loans in April have the payments coming due in October.

Lynn Ledbetter:

According to the original documents.

Ash Faizullah:

According to the original loan documents. But a lot of the banks have extended the time for that first payment by some six months. However, the actual rule that has been passed by the SBA or passed by Congress, puts off those payments for 10 months. So right now there's a big controversy between the banks and the actual rules that Congress has passed.

Lynn Ledbetter:

I think that's why the banks are postponing those due dates, because they're starting to see there's a conflict. They're giving themselves time to fully understand the rules, because the reality is the rules are difficult and they changed 14,000 times.

Ash Faizullah:

They change daily.

Lynn Ledbetter:

They did. They did literally change daily. I think the banks are behind in what the new rules say. That's part of the problem is that clients are saying, "Oh, my first payment's due." And according to those documents, that's true. But the reality is, it isn't, but there's a fight between the banks and the documents.

Ash Faizullah:

Well, the big thing, I think for the banks, is they're really hoping that the loans under \$150,000 get automatically forgiven without any further action on part of the borrower.

Lynn Ledbetter:

Yeah.

Ash Faizullah:

That would save them so much time, because I think the average loan size was under \$150,000.

Lynn Ledbetter:

It was. It was more than the average. The vast majority of the loans were under \$150,000. But as of the date of this recording, that is not likely to come through this year. If it doesn't pass by the end of this week, which is early October right now, when we're sitting here, then it's not going to happen this year. And the odds are this not going to happen this year.

The bill that's on the table is like an easy application for under \$150,000 and then a super easy application for under \$50,000. At the end of the day, we don't know what the rule is going to look like, so why rush for the forgiveness when they may blanket forgive everything. We're going to have expended all this energy trying to jump through. It's actually a very complicated application.

Ash Faizullah:

I think it's 11 pages, isn't it?

Lynn Ledbetter:

It's horrid. When the professionals in our accounting firm have difficulty with the application, I don't have a lot of confidence to turn it over to the clients. There's nothing against the client's abilities, but the thing is hard and conflicting. It's just a nightmare. We really want this forgiveness to go through. I think Robert, you would agree that everyone expects it to, we just don't have an answer.

Robert Edwards:

I agree. Everyone that I've heard from, the banks are lobbying for it. The ADA is lobbying for it. Congress, the congressional committees on both sides, Democrats and Republicans both expect it to pass. But,, they can't get around to actually passing it because there's still talking about another stimulus bill.

Lynn Ledbetter:

Which is probably not going to come to fruition anytime soon, either.

Robert Edwards:

I agree.

Lynn Ledbetter:

It will potentially, but not right away.

Robert Edwards:

I think everybody wants to wait for the election and see who's going to control Congress. Then probably in the first quarter of next year, we might have another stimulus bill.

Lynn Ledbetter:

What else are they asking? When the clients call right now, what are the hot topics?

Robert Edwards:

One thing that I'm getting a lot of questions about is the clients are telling me they haven't spent their PPP money. They have it sitting in an account. I keep explaining to them. No, if you've paid payroll, after you received the PPP funds, you have deemed to have spent the money.

Lynn Ledbetter:

So the funds don't have to come out of that account it's sitting in, is that what you're saying?

Robert Edwards:

Yes.

Lynn Ledbetter:

Okay.

Robert Edwards:

Yeah. They're still qualified then to get the forgiveness.

Lynn Ledbetter:

And for those people who are over \$150,000, which is honestly not a lot of the clients in the dental world, do you think that they're going to have accomplished the forgiveness? Are they going to have used their funds in the required manner so that they will ultimately be forgiven?

Robert Edwards:

Yes, I think so. Almost everybody. Since they extended the period from eight weeks to 24 weeks, then I think everybody is going to have used the money for payroll. If not for payroll then certainly for payroll and rent and the other allowable expenditures. .

Lynn Ledbetter:

Yeah, I would agree with that. The only hiccup is the reduction in the full-time equivalent employees and the reduction in wages. That's what really complicates the application. If you had employees that refuse to come back, they're going to be thrown out the equation, but sometimes that's not the case. And if you did have a reduction, then you may not get full forgiveness, but that's yet to be determined.

Robert Edwards:

Apparently that won't affect those that are automatically forgiven.

Lynn Ledbetter:

Correct. I agree with that, because I think the attestation that it doesn't exist, the attestation that doesn't exist, I think is going to say just, "I used the funds and on these things as required." And everybody's going to be able to say, that's not a problem.

Robert Edwards:

Okay. Then what else do we want to talk about regarding the loans particular to this year and COVID?

Lynn Ledbetter:

Well, I think Ash's clients are asking him the unique question, which really speaks to the rebound of the practices. What are they saying to you, Ash?

Ash Faizullah:

I'm glad you actually mentioned, it's aside from the PPP. The other loan that the clients are talking about is the EIDL loan, which is the Economic Injury Disaster Loan. A lot of our clients have received up to \$150,000, some a little less. What has happened is that they have basically utilized a lot of these funds towards the allowable expenses and that freed up a lot of their patient fees. So some of our clients that are doing fairly well now, or haven't suffered a lot from COVID, they have an abundant amount of cash in their reserves.

Lynn Ledbetter:

Which is a great problem to have.

Ash Faizullah:

Of course. Now they're wanting to know what can we do with this money?

Lynn Ledbetter:

And the first question is, "Do I pay back the EIDL Loan?"

Ash Faizullah:

And a lot of our clients who are firm believers of not having any liability on their books.

Lynn Ledbetter:

They don't like it sitting there and they want it gone.

Ash Faizullah:

Exactly.

Lynn Ledbetter:

Which I totally understand. Is that something we would recommend that they do?

Robert Edwards:

They really, a lot of the clients just want to get out of debt and yeah, they want to repay the money. But I think it's too early. We don't know what the pandemic's going to look like in six months. We've been telling, I've been telling the clients to hang onto the funds. The cost of the funds is what you're paying to have that available. If you pay back the money and then later need it, I doubt very seriously if you'll be able to get \$150,000 from a bank.

And if you did, it would probably take 30 days or more to convince the bank to loan that money to you. The banks loaned this money out, actually the SBA loaned this money out because it's guaranteed. It's easy to repay over 30 years, if you want to take that long. It's a relatively low interest rate. You're just paying the interest you're paying now is just for the availability of the funds.

Lynn Ledbetter:

Yeah, consider it more like insurance so that you have cashflow. Think back six months ago, when your patients weren't coming in and the cash was dwindling and you were like, "Oh my gosh, what am I going to do?" If that happens again, you're going to be sorry you didn't have this money still sitting in your accounts. Once we know this is all behind us, sure, pay it back. That's not a problem. But until we're sure, because Robert said, the lending environment right now is really tough because they're looking at practice financials that don't fit their typical model.

In the past, they've been profitable and they've been standardized. Now, we've got these two months that look like terrible. Then we've got a couple of months that look fabulous and there's no trend. They're wanting projections, which is something they don't normally ask for. They think they can't rely on the statements. So, what would normally be a bad loan process is a wretched loan process. It's very difficult to get money out of the banks right now.

Robert Edwards:

They're asking for more information. They take longer to reach a decision on loans. It's just really difficult to get a loan, a working capital loan now.

Lynn Ledbetter:

That's right now, when things have calmed down and rebounded. If things take another dive, that faucet is going to turn off. Then you're going to wish that you had access to those IDEL funds again. We would just recommend you hold on to them until we are all confident that this is in the past and we can turn those back over.

Robert Edwards:

And speaking of the practices recovering, what are we seeing?

Lynn Ledbetter:

Yeah. What are we seeing? I think it's shocking what we're seeing.

Robert Edwards:

I think the majority of the clients that I've looked at are down maybe 10 to 12% for the year in collections from last year, which is remarkable considering that they were closed for maybe 10 weeks.

Lynn Ledbetter:

I assume you're talking about net profit.

Robert Edwards:

I'm talking about collections. Because the net profit, in some cases, is actually up and that's a whole nother explanation.

Lynn Ledbetter:

Yeah, the net profit is definitely up. I think a lot of the revenues are up. The average, I think a lot of the practices, more than half of our practices, their revenue is up. The average over all of them, it's down about 17%.

Robert Edwards:

Okay.

Lynn Ledbetter:

You've got some that are really down. Some that are really up. It's really amazing the difference, but certainly far more have recovered than are still suffering. I think there was a general feeling out there that this was going to be the end of the world and it's showing to be, that's not the case. The dentists are resilient. The patients are willing to come back and the practices are looking good. A lot of that Robert, people would say is pent up demand. Though, is that going to come to an end and things are going to taper back down or do you think it's going to trend up like it is now continuing?

Robert Edwards:

Well, I think to some degree it's already come to an end. The pent up demand was July and August, to a lesser extent September, but September is traditionally a poor month anyway, for general practitioners. October, we'll see what that's going to be like. But I know a lot of the GPs are scrambling to fill the chairs now for their hygiene and recall programs. I know I've spoken to a lot of clients in the last, I don't know, two weeks that are really hoping that November, December, are typical end of year demand, which is uptick generally from October and September.

Lynn Ledbetter:

As people try to use up their benefits for the end of the year.

Robert Edwards:

Exactly.

Lynn Ledbetter:

As things are going right now, as things picked up in July and August for those patients that hadn't come in, I don't see any reason to think that the end of the year won't pick up as it typically does as well.

Robert Edwards:

I agree. I agree.

Lynn Ledbetter:

So, their most recent guidance that has come out is on the HHS program. Accounting is riddled with acronyms. I apologize about that. The Health and Human Services Department had available some funds that the dentist could apply for that would help supplement their lost revenue. We knew there would be reporting requirements involved with that. Of course they delayed as everything has been delayed this year, they delayed releasing what those reporting requirements would be. Now they've been issued and boy, it's just a staggering read. It's not going to be fun.

Robert Edwards:

What's the due date for the reports?

Lynn Ledbetter:

The first report? Well, hopefully you only have to file one report. It would be due February 15th of 2021. That's if you've used all the funds on what you're allowed to use them on. If not, you've got six more months to use those funds and file another report.

Robert Edwards:

When do the funds have to be used by?

Lynn Ledbetter:

By the end of June of 2021. Though, hopefully you're going to use them all by the end of December of 2020, this year. Then you can file that February report and be done. But if not, you do have six more months to utilize the funds. I think that it's going to be, I want to say relatively easy in most cases, to be able to accomplish it this year, because they are letting you go retroactive. So, it doesn't have to be from when you got the money.

You can go back to as early as March when this thing started happening and you started ordering supplies. Of course, nobody got supplies in March, because there were none to have. But once those did start coming in, all that PE there we go again, PPE is going to count towards your healthcare related expenses, the plastic partitions that you had to put up. What are some of the things that they were buying as far as equipment, air filtration...

Robert Edwards:

Air filtration units for the hygiene rooms. That was the main thing.

Lynn Ledbetter:

Lights.

Robert Edwards:

I'm sorry.

Lynn Ledbetter:

UV lights.

Robert Edwards:

Oh yes.

Lynn Ledbetter:

In some cases.

Robert Edwards:

UV lights to kill the bacteria.

Lynn Ledbetter:

Yeah. All of those are going to count. So the hope is that will be enough to offset what you received from HHS. If so, that would be a fairly easy filling out of a report. Then, you'll be done with it. What's actually

just as complicated is the metrics that they're asking for as far as your employees. They want employee metrics and patient metrics, things that are really of no consequence. At the end of the day, if you didn't spend all your money, there's another component of lost revenue.

But, we think the reality is that lost revenue is not going to come to fruition. So that's not going to play into the equation, because they're making you throw out whatever you spent with the PPP funds. And when you throw that out, there's not a lot of lost revenue, because it originally was going to be lost patient fees, gross fees, and now they've changed it to net income, which is a completely different number.

So in a way, the public was hoodwinked, because the rules have changed. But, here's what I would say. The first time they opened the portal for the application to the dentists, it was really complicated. We had to fill out full-time equivalent employees and your revenue mix and all of these things. Wasn't super complicated, but it was more complex.

Robert Edwards:

This is for the HHS?

Lynn Ledbetter:

This is for the HHS, but these right. But by the end of it, when you could, they just recently closed the portals. By the end of the application process, I think you had to put in your name and like your total revenue or something. So, they really slacked up the application process. My hope is that they'll do the same on the reporting requirements, but I can't say, it's a bureaucracy.

Robert Edwards:

And are those grants taxable to the clients?

Lynn Ledbetter:

They are taxable to the clients. Unfortunately, almost every dollar you've received is taxable right now.

Robert Edwards:

So the expenses you pay with the HHS grants are deductible. Whereas the expenses you pay with the PPP funds are not.

Lynn Ledbetter:

[crosstalk 00:16:30] Currently are not. As it stands now, that's correct.

Robert Edwards:

Okay.

Lynn Ledbetter:

That's another big controversy that Congress is debating.

Ash Faizullah:

What basically happens? If they're non-deductible, how does that affect [inaudible 00:16:42] clients from a tax standpoint?

Lynn Ledbetter:

We are going to really get deep into that in the next episode, but basically it is going to eliminate the bulk of your expenses for a couple month period. Because you're talking about 24 weeks of payroll not being deductible, but you had income coming in. Even if you didn't, if you talk about just the payroll from when you were closed, you think you're going to have a big loss, because you were paying all this money, well, you're not. That means your income is going to be... You're basically going to throw out those two months that you weren't open and your income is going to be the same as it has been in the prior year. That's what's going to be the big surprise.

Robert Edwards:

I know a lot of clients when they came back in July, had the best month they've ever had in their practice that month, July. If payroll's not deductible, then their profits are going to be incredibly high.

Lynn Ledbetter:

Right.

Robert Edwards:

For that month.

Lynn Ledbetter:

Right.

Robert Edwards:

That's going to affect their taxes for the year.

Ash Faizullah:

I see. What about some of the other grants that they were receiving? We have a few clients that receive some county grants. I believe they were asked to utilize all these funds by 12/31, otherwise return it back.

Lynn Ledbetter:

Right.

Ash Faizullah:

Now, if the clients have basically utilized a big chunk of it using the PPP funds that they received, then what kind of advice can you give them for the remainder of the year where they can spend it and still have it applied towards the county grant?

Lynn Ledbetter:

Because they've got to spend all the money on the PPP required items, then the HHS required items and now the County grant required items. The concern is that there aren't enough expenses for all of those relief packages that came in. They may be looking at returning some of those. But, the tax effects, they're going to get taxed on them. So, if they return them back, net after taxes, it's not as big of a hurt as it sounds. I don't know if they're going to be able to spend it all. Robert, what do you think?

Robert Edwards:

I think there'll be able to spend it all. But again, it's going to result in an increase in their taxable income this year, over last year. A lot of people just don't understand, aren't going to understand that when they see it.

Lynn Ledbetter:

Right. Yeah. You definitely need to be watching your taxes this year, consulting your advisor, because it's an abnormal year. That's the bulk of it. It's an abnormal year and if you expect your situation to be the same as always, or to be substantially hurt, because of the pandemic, I think you may be in for a surprise and we don't want you to be surprised. So, be keeping an eye on it.

But, as far as the reporting requirements, you're going to have to be keeping ledgers of what you're spending on PPE. How much each piece costs and how many you've bought and all the different pieces of equipment you bought, because you're going to have to report all these things back for all of these relief packages. Ash, do you know? Because I don't know, are there reporting requirements for these County grants and for these local grants?

Ash Faizullah:

Yes. A lot of them do require for the clients to maintain invoices, receipts, and to basically show how it was relevant to the business expenses. Basically be able to also show that the counties that these funds were not utilized towards any of the other relief grants that were available to them.

Lynn Ledbetter:

So same thing. You can't use one expense and report it for multiple things. You have to keep different ones. You have to spend different relief packages on different items.

Robert Edwards:

I think to further complicate the issue with the personal protection equipment, the PPE, some insurance companies are reimbursing doctors a certain amount per patient for that. If it's reimbursed, you can't spend the grant money on it.

Lynn Ledbetter:

That's right. That's absolutely right. I think that's one thing that they aren't realizing as well.

Robert Edwards:

It's going to be a nightmare reporting.

Lynn Ledbetter:

Yeah. Hopefully it'll be fine. We'll all get through it. We'll help you through it.

Robert Edwards:

We'll get through it, because time still hasn't changed. Everything else has, but there's still 24 hours in a day.

Ash Faizullah:

And we're resilient and this year is not over yet. We still have time. That's part of the reason why we're doing this podcast, so we can inform you that there is still some planning that needs to be done. More importantly, aside from some of the other prior years, I would highly recommend for folks out there listening to us, to consider tax planning with your financial advisors or your CPA. If you don't have a professional on hand, feel free to reach out to us. We do cater to clients nationally. We do have experience in this area, in this field for more than 20 years. We'd like to hear from you if you guys have any other questions.

Lynn Ledbetter:

Right. Thanks guys.

Ash Faizullah:

Thank you.

Robert Edwards:

Thank you.