



Paycheck Protection Program Forgiveness Application Released by the SBA

The SBA released the PPP forgiveness application form on the evening of Friday, May 15, 2020. While not answering all the outstanding questions related to PPP forgiveness, this application provides additional information that may be helpful for borrowers when planning the spending of their PPP loan proceeds. The SBA plans to issue regulations and official guidance soon to further clarify many aspects of PPP loan forgiveness.

Following are some highlights from the recently released forgiveness application:

- **Owner Compensation** - Owner-employees, self-employed individuals, and partners cannot increase their pay during the 8-week covered period above their 8-week average pay in 2019 and have the increase count toward forgiveness. Guidance is still lacking on whether bonuses are allowed for non-owner employees.
- **Start Date for Payroll** - Additional flexibility has been offered related to the start of the 8-week payroll covered period. An "alternate" payroll covered period can be used that allows borrowers to use their regular payroll schedule. The actual language in the instructions states, *"For administrative convenience, Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date (the "Alternative Payroll Covered Period")."*
- **Timing of End of Period Expenses** - The forgiveness application modifies the requirement that spending be "paid and incurred" during the 8-week period. The SBA has stated that, *"payroll costs incurred but not paid during the Borrower's last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if paid on or before the next regular payroll date."* This is helpful, as it means borrowers do not need to reschedule their final payroll to post on the last day of their 8-week covered period. The payroll costs incurred in the 8-week period but paid on the next regular payroll following the end of the 8-week period count toward loan forgiveness. A similar, more flexible rule applies to nonpayroll costs.
- **Definition of Rent** - Rent on personal property (vehicles and equipment) count, along with rent on buildings. Operating leases, therefore, would be ok.
- **Headcount FTE Computation** - As discussed previously, there may be a reduction to the loan forgiveness if employee headcount drops. The calculation of full-time equivalent employees (FTEs) used in the forgiveness reduction calculation is based on a 40-hour week. Previously, many people thought the FTE to be based on a 30-hour week. A simplified method may also be used *"that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours."* The simplified method can be used at the discretion of the borrower.

CONCLUSION

The new PPP forgiveness application provides helpful information for borrowers when planning the spending of their PPP loan proceeds. Each borrower has their own unique circumstances that will need to be considered with help from their banker and other advisors. Additional guidance is expected from the SBA regarding PPP loan forgiveness. **If you have questions regarding the new application or any PPP related matter, please reach out to your primary contact at Heinold Banwart.**