

PPP loan forgiveness: What CPAs should be doing now

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In the six months since the Paycheck Protection Program (PPP) was created, the only certainty about the program has been uncertainty.

The PPP came into being as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136, which was signed into law March 27. With the coronavirus shutting down much of the U.S. economy, Congress created the PPP to assist millions of small businesses suddenly facing an uncertain future.

The PPP was born in a flash — the U.S. Small Business Administration (SBA) and Treasury launched the program in only a week — and forged in a flurry of interim final rules and frequently asked questions (FAQs). That guidance often raised more questions, and many small businesses relied on CPAs to help chart a safe path through the chaos.

The program stopped accepting new applications on Aug. 8 after funding more than 5.2 million loans for a total of \$525 billion. Nearly two months later, small businesses that received PPP funding are relying heavily on accountants to guide them through the process of seeking forgiveness for the loans while keeping an eye on potential additional funding from the federal government.

Borrowers who wish to apply for forgiveness and release the burden of their PPP loan are pressuring CPAs to help them move forward with the process. But, as has been the case since the beginning, much uncertainty still surrounds the PPP.

So what should CPAs be doing now? The wise course is to begin preparing the forgiveness application and stay on top of documentation requirements but also be patient with the process as substantial areas are settled. To help you explain the current situation to business owners and leaders, let's take a look at a collection of PPP questions, key facts, and best practices.

A pair of gray areas

Two of the biggest areas of uncertainty remaining with PPP forgiveness are the following:

Deductibility of expenses: Forgiven PPP loans are not taxable income, but IRS [Notice 2020-32](#) declared that no tax deduction is allowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a PPP-covered loan. The position is that allowing the deductibility of expenses paid with PPP funds would result in a double-dipping scenario.

The AICPA is among [hundreds of organizations](#) that have urged Congress to allow full deductions for PPP-related business expenses. Given the severity of the pandemic's impact on U.S. businesses, the AICPA believes Congress intended PPP expenses to be deductible. Lawmakers from both parties have voiced support for this position, but that has not yet translated into congressional action.

Blanket forgiveness: Most PPP loans were for \$150,000 or less. Because the PPP loan forgiveness process can be tedious, members of Congress have proposed legislation that would allow for a much simpler process of streamlined forgiveness for loans under a certain amount. The commonly discussed threshold is loans of \$150,000 and below, but that could change, and there's a possibility that blanket forgiveness won't ever be granted.

In an ideal scenario, borrowers won't file for loan forgiveness until the questions surrounding tax deductibility and automatic forgiveness are resolved. Of course, we have no idea when that will be, which leads us into ...

3 key facts about PPP loan forgiveness

Borrowers eager to get PPP loans forgiven may want to know the deadline for forgiveness applications and whether they can submit applications early. If they are a co-owner in the company where they work, they may also want to know if they are subject to the stricter PPP compensation replacement calculations for owner-employees. Let's explore those three issues.

Forgiveness application due date: There is no defined deadline for borrowers submitting the forgiveness application, but borrower payments will be required 10 months after the end of the covered period as explained in FAQ No. 3 of the [PPP Loan Forgiveness FAQs](#).

Borrower submission of a forgiveness application does trigger deadlines for lenders and the SBA. Section 2(a) of the [Interim Final Rule on Revisions to Loan Forgiveness Interim Final Rule and SBA Loan Review Procedures](#) gives lenders 60 days after the forgiveness application is received to issue a decision to the SBA. The SBA then has 90 days after receiving the decision from the lender to review the application and remit the forgiveness amount to the lender with any interest accrued through the date of the payment.

Early applications for loan forgiveness: These are permitted, but there's a catch: An eight- or 24-week covered period will still apply.

The PPP Flexibility Act, P.L. 116-142, signed into law June 5 extended the covered period from eight weeks to 24 weeks. For loans funded before June 5, 2020, borrowers can choose to keep the eight-week covered period or move to the 24-week period. If the loan was funded after June 5, 2020, the borrower must use a 24-week covered period.

Whether it's eight weeks or 24 weeks, borrowers may apply for forgiveness before the end of the covered period. But doing so lowers the maximum eligible compensation. For example, if a borrower exhausts its PPP funds for eligible expenses and chooses to apply for forgiveness 16 weeks after the start of the covered period, the covered period would still be 24 weeks and compensation maximums for employees would be prorated to \$30,769 ($[16 \div 24 \times \$46,154]$), less than the compensation maximum for employees of borrowers with a 24-week covered period.

Additionally, any salary or wage reduction would be extrapolated to the full covered period. As an example, if Employee A's rate of pay was reduced from \$25 per hour during the first quarter of 2020 to \$15 per hour during the covered period, with an average of 40 hours worked per week, the full wage reduction would be \$3,600. Here's how that reduction is calculated:

1. Any employee with pay that was reduced more than 75% of the 2020 quarter 1 rate of pay, would incur a salary or wage reduction:

a. 75% of \$25 per hour = \$18.75.

b. The pay Employee A received during the covered period of \$15 per hour is \$3.75 less than \$18.75.

2. Since Employee A is hourly, borrowers will need to calculate the average number of hours worked per week between Jan. 1 and March 31, 2020.

a. Assume for this example, the average number of hours worked per week is 40.

3. To calculate the salary/wage reduction, which will lower a borrower's loan forgiveness, multiply the reduction by the average hours worked per week times the number of weeks in the covered period.

a. \$3.75 salary/wage reduction \times 40 hours \times 24 weeks = \$3,600.

Definition of an owner-employee: The PPP loan forgiveness application established a PPP owner-employee compensation rule for determining the amount of their compensation eligible for loan forgiveness. The application did not define owner-

employees, causing a good amount of confusion. An FAQ published in early August defined an owner-employee as someone who is both an owner and an employee of a C corporation. An interim final rule issued Aug. 24 established that the PPP owner-employee compensation rule does not apply to individuals with less than a 5% stake in a C or S corporation.

The impact of this relates to the owner-employee versus employee compensation maximums. Those with less than a 5% ownership in an S or C corporation will be eligible for the employee compensation maximum of \$46,154 instead of the owner-employee maximum of \$20,833 during a 24-week covered period. Please note that partners are still subject to the \$20,833 limitation for a 24-week covered period.

A pair of best practices

With so much uncertainty still in the PPP loan forgiveness process, CPAs could be excused for not being sure of what actions they should take to help borrowers be prepared. Let's close this article with a couple of tips on what CPAs can do now:

Document everything you can: Because the rules for PPP loan forgiveness contain so many gray areas, borrowers should know how they reached certain conclusions and what guidance they used to do so. Document how a conclusion was reached and the location of the guidance that informed that conclusion. You don't want to have to search through the many interim final rules, FAQs, and applications to track down guidance to explain the justification for information provided in the loan forgiveness application. In the event you need to find something you didn't previously think was relevant to your situation, check out the Resource Index of IFRs and FAQs at aicpa.org/sba (AICPA member login required for access).

Exercise your best judgment: This cannot be stressed enough. Borrowers and their advisers need to be aware of the guidance, read the application and application instructions thoroughly, and use that information to come to a reasonable conclusion. Sometimes, an answer will be hard to find amid all the shades of gray. This should be no surprise. As with all things PPP, the only certainty is uncertainty. This is where a CPA's judgment can make all the difference.

AICPA experts discuss the latest on the PPP and other small business aid programs during a biweekly virtual town hall. The webcasts, which provide CPE credit, are free to AICPA members. Go to the AICPA Town Hall Series webpage for more information and to register.

The AICPA's Paycheck Protection Program Resources page houses resources and tools produced by the AICPA to help address the economic impact of the coronavirus.

For more news and reporting on the coronavirus and how CPAs can handle challenges related to the outbreak, visit the JofA's [coronavirus resources page](#) or [subscribe to our email alerts](#) for breaking PPP news.

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