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Some questions — but not all — answered in updated PPP forgiveness rules. Here's what you need to know

By [Ashley Portero](#) — Reporter, South Florida Business Journal

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The U.S. Small Business Administration [this week released](#) an application and instructions for Paycheck Protection Program loan forgiveness, which must be completed by businesses to ensure their loans are forgiven.

The [new guidelines and application](#) offer some clarity, but questions remain about the forgiveness process, accountants say. The SBA and U.S. Department of Treasury have updated guidance for the small business loan program on multiple occasions since it launched in April.

"I'm advising clients on loan forgiveness based on what we know today, but it's constantly evolving," said [Sheri Fiske Schultz](#), managing partner of Fiske and Co., a CPA firm based in Plantation.

Fiske and [Andy Alan](#), a director in the advisory practice of accounting firm Marcum LLP, both said they expect to see more updates before businesses begin applying for loan forgiveness in the coming weeks. They noted some lawmakers are pushing to extend the eight-week forgiveness time frame before the first wave of PPP recipients hit that benchmark in early June.

But the most recent set of guidance still cleared up some questions that business owners, bankers and accountants alike had about forgiveness qualifications, they added.

Alternative payroll covered period

Under the PPP, borrowers have eight weeks to spend their approved funds. That period begins the day the loan is funded. But some businesses, such as those that pay employees on a weekly or biweekly basis, have payroll periods that do not align with that eight-week period, Marcum's Alan said.

Now, the SBA has an option that allows borrowers to calculate payroll costs using an "alternative payroll covered period." Borrowers with a biweekly (or more frequent) payroll schedule can choose to calculate their payroll costs from the first day of their business' first pay period following their PPP loan disbursement date. That ensures PPP money will cover as many pay periods as possible within the eight-week period, Alan said.

Calculating full-time equivalents

Loan forgiveness is based on whether a business retains its employees or offers the full-time equivalent (FTE) of those jobs after the loan is funded. The FTE equals the average number of employees who work at least 40 hours per week.

For example: If a business has three employees who worked 40 hours and two that worked 20 hours, it would have four FTE's that week.

Because some previous SBA programs defined a full-time week as 30 hours, Alan said accountants had questions about whether FTEs should be calculated using a 30-hour work week. But the updated guidelines confirmed businesses should calculate FTE's using a 40-hour workweek.

Businesses must bring FTE hours back to what they were Feb. 15., before Covid-19 closures took place, by June 30 to qualify for loan forgiveness.

The guidance means businesses have the option to rehire fewer employees – perhaps by retaining a handful of full-time workers, instead of many part-time workers – and still meet PPP forgiveness requirements.

Most businesses not liable

Due to changing PPP guidelines, some businesses had worried they could be liable if applications were audited and the loan deemed unnecessary, Schultz said.

But the SBA confirmed borrowers with loans under \$2 million will not be audited. Larger loans, however, will be. Borrowers with loans above \$2 million had until May 18 to return PPP funds, without penalty, if they have access to credit elsewhere.

"The main issue is liquidity," Schultz said. "A business that received less than \$2 million is more likely to be smaller and have limited resources. The SBA can't audit every single loan, so they set that threshold."

Schultz said businesses with larger PPP loans must prove they did not have access to alternative liquidity or credit. One way to do that, she said, is to apply for a bank loan.

"If [the borrower] is turned down, that shows they had good reason to get a PPP loan and they can present that evidence when the loan is audited," she said.

Personal protection gear not covered by PPP

To qualify for forgiveness, PPP recipients must use 75% of the loan to cover payroll and the remainder on overhead costs like rent, mortgage and utility payments.

But the cost of face masks, gloves, hand sanitizer and other materials businesses must have on hand to safely reopen don't qualify, Marcum's Alan said.

"It does not appear that those are allowable expense for forgiveness under the application guidance," he said.

Application deadline uncertain

Schultz said it's unclear how long businesses have to complete their forgiveness applications once the eight-week covered period expires, Schultz said.

"Borrowers still have a few weeks before they hit that deadline, so we might have answers by then," she said, noting that the earliest PPP loans weren't funded until at least mid-April.

Banks will have 60 days to review the forgiveness applications before moving them along to the SBA for approval.

But one thing is clear, Schultz said. Borrowers must submit forgiveness applications, or face repaying the loans.

"It's seems silly to emphasize, but they have to turn it in – it won't be automatically completed for them," she said. "If they don't, they'll have to pay the money back at the 1% interest rate."