
COVID-19 UPDATE | MAY 19, 2020

PAYCHECK PROTECTION PROGRAM: SBA RELEASES LOAN FORGIVENESS APPLICATION & INSTRUCTIONS

On May 15, 2020, the Small Business Administration (SBA) released its much-anticipated [Loan Forgiveness Application and Instructions](#). Since its launch in March, the Paycheck Protection Program has been seen as a lifeline for small businesses impacted by the COVID-19 pandemic. However, applicants have faced numerous challenges, including confusion around use of funds and loan forgiveness calculations.

In order to apply for loan forgiveness, borrowers must complete the application and submit it to their lender after the close of their covered period (defined below).

This latest guidance provides clarity on several important aspects of the loan forgiveness calculation, including:

- **Covered Period**
Previous PPP loan forgiveness guidance referred to the 8-week period post-closing, which has now been clarified to be defined as a 56-day period starting on the date that the loan proceeds are received.
- **Alternative Period**
The latest guidance states that a borrower may elect an Alternative Payroll Covered Period (Alternative Period) to avoid payroll date discrepancies within the Covered Period. This Alternative Period may begin on the first day of the first pay period following the date that the loan proceeds are received.
- **Payroll Costs**
Payroll costs are considered “incurred” on the date that the employee’s pay is earned; and are considered “paid” on either the date that the paycheck is distributed, or the date that the borrower originates the ACH credit transaction.
- **Wage Cap**
In order to be eligible for forgiveness, wages paid to an employee or owner must not be more than \$15,385 for the Covered Period or Alternative Period.
- **State and Local Taxes (SALT)**
Loan proceeds may be used to pay employer state and local taxes assessed on employee salary and wages.

Below is a quick summary of the loan forgiveness calculation:

- 1. Determine Your Total Forgiveness Eligibility**
Add up the total allowable costs incurred and paid during the Covered Period.
- 2. Subtract Any Applicable Forgiveness Reductions**
 - a. **Wage Reduction:**
Subtract any reductions in employee salary and wages of more than 25%

- b. FTEE Quotient:
Compare historical Full Time Equivalent Employees (FTEEs) to FTEEs during the Covered Period, and multiply the remaining eligible amount (Step 1 – Step 2a) by this quotient.
- c. Payroll Rule:
Divide total amounts spent on salary and wages (Step 1) by 75%.

3. Determine Loan Forgiveness

Your total loan forgiveness amount will be the lesser of Step 2b or Step 2c.

For a more in-depth overview of the forgiveness calculation, as well as a guide to eligible use of funds during the Covered Period, read our [guide to determining PPP loan forgiveness](#).

Although the latest guidance provides some much-needed clarity around the PPP loan forgiveness calculation, there are still several areas that remain unclear. We expect additional guidance to be released in the coming weeks, especially as it pertains to businesses that have been forced to remain closed during the pandemic. CRR is closely following any new information being released in order to best support our clients in maximizing loan forgiveness during the 8-week Covered Period post-closing.

Please don't hesitate to contact us at ppp@crrcpa.com with any questions you may have, or visit our COVID-19 Resource Center at www.crrcpa.com/covid19 for the latest updates, alerts and impacts.

We're in this together.