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June 24, 2020

PPP – Early Loan Forgiveness Guidance

A new interim final rule released by the Small Business Administration on June 22 makes revisions to previous guidance to reflect the Paycheck Protection Program Flexibility Act which became law on June 5. The most notable changes from that guidance included:

- Expanding the covered period during which PPP loan recipients can spend the funds and still qualify for loan forgiveness from eight weeks to 24 weeks.
- The 24-week period applies to all loans made on or after June 5. Borrowers that received loans before June 5 can choose to elect an eight-week period.
- Lowering to 60% from 75% the proportion of PPP funding that must be used on payroll costs to qualify for full forgiveness.
- Expanding the term for new loans to five years from two years. Borrowers with loans received before June 5 can extend their loan term to five years if their lender agrees.

Much of the new guidance is the explanation of the process for applying early for loan forgiveness.

<u>Early loan forgiveness applications</u>

Small businesses have inquired about whether they can apply for PPP loan forgiveness before their covered period expires. The new interim final rule says that if a borrower applies for loan forgiveness before the end of the covered period and has reduced any employees' salaries or wages by more than the 25% allowed for full forgiveness, the borrower must account for the excess salary reduction for the full eight-week or 24-week covered period, whichever one applies to its loan.

Under the new revision, PPP borrowers that apply early for loan forgiveness forfeit a safe-harbor provision allowing them to restore salaries or wages by December 31 and avoid reductions in the loan forgiveness they receive. For example, if a borrower has a 24-week period that ends in November but wants to apply in September, any wage reduction in excess of 25% as of September would be calculated for the entire 24-week period even if the borrower restores salaries by December 31.

Below is an example provided by the SBA in the interim final rule demonstrating how the calculations may work:

Example: *A borrower is using a 24-week covered period. This borrower reduced a full-time employee's weekly salary from $1,000 per week during the reference period to $700 per week during the covered period. The employee continued to work on a full-time basis during the covered period, with an FTE of 1.0. In this case, the first $250 (25% of $1,000) is exempted from the loan forgiveness reduction. The borrower seeking forgiveness would list $1,200 as the salary/hourly wage reduction for that employee (the extra $50 weekly reduction multiplied by 24 weeks). If the borrower applies for forgiveness before the end of the covered period, it must account for the salary reduction for the full 24-week covered period (totaling $1,200).*

If you have questions or need assistance, please contact your Brown Edwards professional. Our PPP experts are ready to help.

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