Journal of Accountancy

PPP forgiveness changes coming as Senate passes House bill

By Jeff Drew
June 4, 2020
Updated: June 5, 2020

The U.S. Senate passed the House version of Paycheck Protection Program (PPP) legislation Wednesday night, tripling the time allotted for small businesses and other PPP loan recipients to spend the funds and still qualify for forgiveness of the loans.

The bill passed in a unanimous voice vote hours after Wisconsin Sen. Ron Johnson initially blocked it. Among the key provisions is a change in the threshold for the amount of PPP funds required to be spent on payroll costs to qualify for forgiveness to 60% of the loan amount.

The Senate approval sent the House bill, called the Paycheck Protection Flexibility Act (https://www.congress.gov/bill/116th-congress/house-bill/7010/text), to President Donald Trump, who signed it Friday.

The vote had to be unanimous because the Senate is not officially in session. That meant that any senator could force the matter to be delayed until the Senate returned to Washington with enough members for a quorum and a vote.

Leaders from both parties in the Senate pushed to pass the legislation on Wednesday as the clock on the initial eight-week window recently expired for the first recipients of PPP loans. Johnson dropped his objections after Senate leader Mitch McConnell agreed to add a letter (https://www.congress.gov/congressional-record/2020/6/3/senate-section/article/s2690-2?q=%7B%22search%22%3A%5B%22PPP%22%5D%7D&s=6&r=1) to the Congressional Record clarifying that June 30 remains the deadline for applying to receive a PPP loan.

Following is a summary of the legislation’s main points compiled by the AICPA:

- Current PPP borrowers can choose to extend the eight-week period to 24 weeks, or they can keep the original eight-week period. New PPP borrowers will have a 24-week covered period, but the covered period can’t extend beyond Dec. 31, 2020. This flexibility is designed to make it easier for more borrowers to reach full, or almost full, forgiveness.

- Under the language in the House bill, the payroll expenditure requirement drops to 60% from 75% but is now a cliff, meaning that borrowers must spend at least 60% on payroll or none of the loan will be forgiven. Currently, a borrower is required to reduce the amount eligible for forgiveness if less than 75% of eligible funds are used for payroll costs, but forgiveness isn't eliminated if the 75% threshold isn't met. Rep. Chip Roy (Texas), who co-sponsored the bill in the House, said in a House speech that the bill intended the sliding scale to remain in effect at 60%. Senators Marco Rubio and Susan Collins indicated that technical tweaks could be made to the bill to restore the sliding scale. (***Update***: *SBA and Treasury clarified on June 8 (/news/2020/jun/partial-ppp-loan-forgiveness-remains-60-percent-threshold.html) that the 60% threshold is not a cliff and that partial forgiveness is available under 60%.*)

- Borrowers can use the 24-week period to restore their workforce levels and wages to the pre-pandemic levels required for full forgiveness. This must be done by Dec. 31, a change from the previous deadline of June 30.

- The legislation includes two new exceptions allowing borrowers to achieve full PPP loan forgiveness even if they don't fully restore their workforce. Previous guidance already allowed borrowers to exclude from those calculations employees who turned down good faith offers to be rehired at the same hours and wages as before the pandemic. The new bill allows borrowers to adjust because they could not find qualified employees or were unable to restore business operations to Feb. 15, 2020, levels due to COVID-19 related operating restrictions.

- New borrowers now have five years to repay the loan instead of two. Existing PPP loans can be extended up to 5 years if the lender and borrower agree. The interest rate remains at 1%.

- The bill allows businesses that took a PPP loan to also delay payment of their payroll taxes, which was prohibited under the CARES Act.

In a statement issued Friday, the AICPA thanked Congress for the flexibility legislation and encouraged small businesses to apply for PPP loans.

"CPA firms have worked tirelessly to help their small business clients understand, as best possible, the PPP's policies and apply for financial relief," Mark Koziel, CPA, AICPA executive vice president–Firm Services, said in the statement. "Some small businesses may have hesitated to apply for PPP funds because of challenges with the old forgiveness rules. We encourage CPA firms to share how the PPP Flexibility Act greatly improved these rules, which may help more small businesses apply for relief."

Erik Asgeirsson, CEO and president of CPA.com, said the improved U.S. unemployment figures for May demonstrated that the PPP is having a significant impact on the retention and rehiring of workers.

"Over the past two months, the 44,000 CPA firms tied to the AICPA have played a critical role in delivering this needed business relief to their clients," Asgeirsson said in the statement. "We are going to continue to work with the AICPA-led [small business funding] coalition to help answer new questions related to these recent changes."

The PPP in brief

The PPP launched in early April with $349 billion in funding that was exhausted in less than two weeks. Congress provided an additional $310 billion in funding in an April 21 vote (https://www.journalofaccountancy.com/news/2020/apr/senate-approves-more-small-business-funding-ppp-loans-coronavirus-relief-.html), but demand for the program soon waned due to controversies over publicly traded companies and other large enterprises being awarded loans. Concerns about the attainability of loan forgiveness under the program's rules also contributed to small businesses and other eligible entities casting a wary eye to the program.

Congress established the PPP to provide relief to small businesses during the coronavirus pandemic as part of the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. The legislation authorized Treasury to use the SBA's 7(a) small business lending program to fund loans of up to $10 million per borrower that qualifying businesses could spend to cover payroll, mortgage interest, rent, and utilities.

PPP funds are available to small businesses that were in operation on Feb. 15 with 500 or fewer employees, including tax-exempt not-for-profits, veterans' organizations, Tribal concerns, self-employed individuals, sole proprietorships, and independent contractors. Businesses with more than 500 employees also can apply for loans in certain situations.

The AICPA's Paycheck Protection Program Resources page (https://future.aicpa.org/resources/toolkit/paycheck-protection-program-resources-for-cpas) *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 pandemic, visit the JofA*'s coronavirus resources page* (https://www.journalofaccountancy.com/info/coronavirus-resources-for-cpas.html).

—***Jeff Drew*** *(Jeff.Drew@aicpa-cima.com)* (mailto:Jeff.Drew@aicpa-cima.com)) *is a* JofA *senior editor.*