The U.S. Small Business Administration (SBA), in consultation with Treasury, released Wednesday a revised loan forgiveness application for the Paycheck Protection Program (PPP). The SBA also unveiled a new EZ application for forgiveness of PPP loans.

The applications reflect changes to the PPP made by the Paycheck Protection Flexibility Act of 2020, P.L. 116-142, which became law June 5. The applications and instructions are available in the links below:

- Revised PPP Loan Forgiveness Application and instructions
- EZ PPP Loan Forgiveness Application and instructions

The releases Wednesday came only hours after the SBA issued a new interim final rule providing guidance on how to calculate employee and owner compensation for loan forgiveness in the new 24-week covered period created by the Paycheck Protection Flexibility Act.

Congress passed the Paycheck Protection Flexibility Act to make it easier for small businesses and other PPP borrowers to qualify for full loan forgiveness. Among the changes in the act are an expansion of the "covered period" for loan forgiveness to 24 weeks from eight weeks, a reduction of the proportion of proceeds that must be spent on payroll costs to 60% from 75%, and the establishment of a safe harbor for businesses that have been unable to return to the level of business activity they had before the COVID-19 pandemic due to compliance with health and safety guidelines for slowing the spread of the virus.

Application highlights

The revised PPP Loan Forgiveness Application and instructions include a number of notable items. Among them are:

- Health insurance costs for S corporation owners cannot be included when calculating payroll costs; however, retirement costs for S corporation owners are eligible costs.
- Safe harbors for excluding salary and hourly wage reductions and reductions in the number of employees (full-time equivalents) from loan forgiveness reductions can be applied as of the date the loan forgiveness application is submitted. Borrowers don't have to wait until Dec. 31 to apply for forgiveness to use the safe harbors.
- Borrowers that received loans before June 5 can choose between using the original eight-week covered period or the new 24-week covered period.

New EZ application details

The EZ PPP Loan Forgiveness Application requires fewer calculations and less documentation than the full application. The EZ application can be used by borrowers that:

- Are self-employed and have no employees;
- Did not reduce the salaries or wages of their employees by more than 25% and did not reduce the number or hours of their employees; or
- Experienced reductions in business activity as a result of health directives related to COVID-19 and did not reduce the salaries or wages of their employees by more than 25%.

New interim final rule published

The SBA issued rules Tuesday night for determining payroll costs and owner compensation in calculating PPP loan forgiveness under the new 24-week covered period.

The Paycheck Protection Flexibility Act tripled the duration during which PPP recipients could spend the funds and still qualify for loan forgiveness — a span of time called the covered period. The interim final rule adjusts and adds to previous guidance for calculating loan forgiveness under the original eight-week covered period.

The PPP allows loan forgiveness for payroll costs — including salary, wages, and tips — for up to $100,000 annualized per employee, or $15,385 per individual over the eight-week period. The new interim final rule establishes the 24-week maximum for full loan forgiveness at $46,154 per individual.

Owner compensation replacement calculations

While the employee compensation limit for the 24-week period is three times the eight-week limit, the interim final rule does not do the same with the owner compensation replacement for businesses that file Schedule C, *Profit or Loss From Business*, or Schedule F, *Profit or Loss From Farming*, tax returns. For those businesses, forgiveness for the owner compensation replacement is calculated for the eight-week period as 8 ÷ 52 × 2019 net profit, up to a maximum of $15,385. For the 24-week period, the forgiveness calculation is limited to 2.5 months' worth (2.5 ÷ 12) of 2019 net profit, up to $20,833.

The owner compensation replacement calculations are structured to prevent owners from reaping PPP windfalls that Congress did not intend, according to the interim final rule. Specifically, the SBA and Treasury, which oversee the PPP, want to prevent the following scenario, which is made possible by a provision in the Paycheck Protection Flexibility Act that provides a safe harbor from loan forgiveness reductions to any borrower that is unable to return to the same level of business activity it was operating at before Feb. 15, 2020.

Because the maximum loan amount for a business is generally based on 2.5 months of the borrower's average total monthly payroll costs during the one-year period preceding the loan, a borrower with one other employee would receive a maximum loan amount equal to five months of payroll (2.5 months of payroll for the owner plus 2.5 months of payroll for the employee). If the owner laid off the employee and availed itself of the aforementioned safe harbor, the owner could treat the entire amount of the PPP loan as payroll, with the entire loan forgiven.

"This would not only result in a windfall for the owner, by providing the owner with five months of payroll instead of 2.5 months, but also defeat the purpose of the CARES Act of protecting the paycheck of the employee," the interim final rule says. "For borrowers with no employees, this limitation will have no effect, because the maximum loan amount for such borrowers already includes only 2.5 months of their payroll."

Other provisions

The interim final rule also modifies earlier guidance to account for changes included in the Payroll Protection Flexibility Act.

- The minimum term for PPP loans is raised to five years for all loans made on or after June 5. For loans made before June 5, the two-year minimum maturity remains in effect unless both the borrower and the lender agree to extend it to five years.
- The proportion of PPP funding that must be used on payroll costs to qualify for full forgiveness drops to 60% from 75%.
- The application deadline for PPP loans remains June 30.

The PPP in brief

Congress created the PPP 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.

The forgivable loans were designed to help support organizations facing economic hardships created by the coronavirus pandemic and assist them in continuing to pay employee salaries. PPP loan recipients can have their loans forgiven in full if the funds were used for eligible expenses and other criteria are met. The loan forgiveness amount may be reduced based on the percentage of eligible costs attributed to nonpayroll costs, any decrease in employee headcount, and decreases in salaries or wages per employee.

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

Congress approved $349 billion in PPP funding. After that money was quickly exhausted, Congress authorized another $310 billion, bringing the program total to $659 billion. As of 5 p.m. ET Tuesday, the SBA had approved more than 4.6 million loans totaling $513 billion.