

December 22, 2020

Paycheck Protection Program: Round 2 Proposal

The Paycheck Protection Program ended August 8th, and the SBA concluded its acceptance of PPP applications. Currently, applications for loan forgiveness are underway. Recently, talks of another round of PPP relief (PPP2) have been in the works as Congress continues to negotiate the possibility of a second stimulus package for the nation. With millions of Americans imploring for additional help from the effects of the ongoing Covid-19 pandemic, Congress is determined to hopefully come to an agreement before the New Year. Here is our latest understanding of the events happening today.



Loan Forgiveness

If you received a PPP loan, you may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during either the 8 - or 24-week period after disbursement. Employers must maintain the same average number of employees during the covered period to qualify for loan forgiveness (the amount of a loan that can be forgiven will be prorated, not entirely eliminated, for employers who reduce staffing). Reducing compensation for employees earning under \$100,000 by more than 25% can also reduce the amount forgiven. Once all the PPP funds have been exhausted, you can apply for forgiveness at any time up to the maturity date of the loan but within 10 months after the last day of the covered period.

Source: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

How to Apply for PPP Loan Forgiveness

- 1 . Contact your PPP Lender and complete the correct form. There are currently 3 forgiveness forms available: SBA Form 3508, SBA Form 3508EZ, and SBA Form 3508S (see below for more information on Form 3508S). Some lenders have their own form which would be a lender equivalent to these forms. The 3508EZ and the 3508S are shortened versions of the application for borrowers who meet specific requirements. The SBA website (link above) contains links to all 3 applications as well as detailed instructions to the applications.
 2. Compile the required documentation showing the use of the PPP funds for payroll and non-payroll. Documentation may include:
 - a. For payroll – documentation includes bank statements showing compensation paid to employees, federal and state payroll tax filings, and receipts or bank statements showing any employer contributions to employee health insurance and retirement plans.
 - b. Non-Payroll - Receipts, bank statements, or account statements showing business mortgage interest payments, business rent or lease payments, and business utility payments.
 3. Submit the forgiveness form and documentation to your lender and continue to communicate with your lender throughout the process. Your lender has 60 days to review your forgiveness application and submit it to the SBA. The SBA then has up to 90 days to evaluate your forgiveness application and notify your lender of their decision.
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The Recently Added SBA Form 3508S



This form is available for use by borrowers who received a PPP Loan of \$50,000 or less. Form 3508S is designed to make the process less confusing and time-consuming for employers who borrowed relatively small amounts. Borrowers of small loans will no longer be required to reduce their loan forgiveness value if they reduced the salary or wages of an employee earning less than \$100,000 during the covered period. Similarly, these borrowers will not be required to reduce the amount forgiven if they reduced their number of full-time equivalent employees during the covered period. Small loan recipients are still required to calculate the amount of their forgiveness and submit applicable documentation verifying the calculation of payroll and non-payroll use of the loan proceeds.

The Deductibility of Expenses Used for PPP Loan Forgiveness

The Paycheck Protection Program (PPP) was created as a part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. CARES Act Section 1106(I) specifically excludes the forgiveness of PPP loans from gross income.

While the CARES Act excludes the loan forgiveness from gross income, it does not specifically address whether the expenses used to achieve the loan forgiveness would continue to be deductible. On April 30, 2020, the IRS issued Notice 2020-32 to provide guidance regarding the deductibility of certain otherwise deductible expenses incurred in a taxpayer's trade or business that the taxpayer uses to support loan forgiveness. The notice states that no deduction is allowed under the Internal Revenue Code for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a PPP loan because the income associated with the forgiveness is excluded from gross income for purposes of the Code under CARES Act Section 1106(I).

Currently, there are proposals in discussion to make these expenses deductible with possible thresholds. Unfortunately, a decision is still yet to be made.

PPP2

Currently, a group of lawmakers are in discussion regarding the new framework for a \$908 billion COVID economic relief plan (Senate "Gang of 8" Proposal), which allocates \$300 billion for support of small businesses, including a second round of PPP loans. In addition, the package contains provisions for a simplified forgiveness process for PPP loans of \$150,000 or less, and allows expenses paid

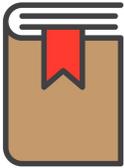


with PPP funds to be deductible. The new round of PPP funding will have a framework similar to the first round, and loan amounts will again be based on 2.5 months of payroll costs. The covered period will again be 8 or 24 weeks. The maximum loan amount will be \$2 million.

The loan will be available as a second draw loan to businesses who previously received PPP funds and have 300 or fewer employees as well as a 30% decline of gross receipts in any quarter in 2020 compared to the same quarter in 2019. The loan is also available to first time borrowers with 500 or fewer employees, sole-proprietors, independent contractors, eligible self-employed individuals, and non-profits.

This proposal is currently in discussions and negotiations and is expected to hopefully pass any day now. Businesses that believe they may be eligible for a PPP2 loan should begin to prepare and gather their documentation as soon as possible to expedite the application process in this second round.

It is important to stay up to date with the latest news from The US Chamber of Commerce, The US Small Business Administration, The US Treasury Department, your bank's policies, and your trusted Griffing & Company, P.C. advisors who are navigating the legislation. If you need help with your PPP Loan Forgiveness process or have any questions, feel free to contact our office. We are more than happy to help!



Sources to Bookmark

- The US Treasury Department: <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
 - The Small Business Administration: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>
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