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Paycheck Protection Program Loan Forgiveness Update

On June 5, 2020, President Trump officially signed the Paycheck Protection Program Flexibility Act (PPPF). This new law provides additional loan flexibility for participants in the Paycheck Protection Program.

As a refresher, the Paycheck Protection Program (PPP) was created as part of the larger CARES Act in late March of 2020. This new program authorized the Small Business Administration (SBA) to make loans to qualified businesses to maintain payroll and cover certain other expenses incurred. To the extent that the loan proceeds are used to pay payroll and other qualified expense during the covered period, the loan is forgivable. However, if full time staffing is decreased or wages are reduced by more than 25%, forgiveness of the loan may also be reduced.

This new legislation made the following changes to the forgiveness calculation of the Paycheck Protection Program:

- Extended the period of time to use loan proceeds (the covered period) from 8 weeks to 24 weeks. For loans issued prior to June 5, 2020, an 8 week covered period may still be elected.
- Decreased the required portion of the loan proceeds that must be used for payroll costs from 75% to 60%. This will allow a larger percentage of the loan proceeds to be used on other covered non-payroll costs such as rents, mortgage interest and utilities
- Extended the safe harbor date for borrowers to restore full employment and salary levels from June 30, 2020 to December 31, 2020.
- Extended the deferral period for the commencement of loan payments from 6 months to the date on which the amount of loan forgiveness is determined.
- Provides an exemption from reduction in forgiveness if a) the borrower can document that employees on February 15, 2020 could not be rehired and replacement qualified employees were not available or b) the borrower can document that business could not return to the February 15, 2020 level of activity due to compliance with federal, state and local health requirements.

In addition to these changes to the PPP program, the PPPF legislation eliminated the restriction that prevented employers that received PPP loans from deferring the payment of certain payroll taxes. As a result, recipients of PPP loans may delay paying the employer portion of the Social Security payroll tax on wages for the period from March 27, 2020 to December 31, 2020. Any payroll taxes which the employer elects to defer must be paid in two installments. 50% of these deferred taxes should be paid at the end of 2021, with the remaining portion payable at the end of 2022.

For additional information on the Paycheck Protection Program loan please contact one of our offices today.