This is from a May 16th [blog post](#) from [Evergreen Small Business](#) but thought it would be more user friendly as a document you could study/pass along to your CPA or in-house accounting team.

Alternate Payroll Covered Period

Responding to the pleas from accountants, the loan application allows borrowers to use their regular payroll schedule. That's great news. It means that small businesses don't need to match their payroll cycle to the eight week "testing period" or "covered period" which the forgiveness formula looks at.

Here's the actual language from the instructions:
For administrative convenience, Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following their PPP Loan Disbursement Date (the "Alternative Payroll Covered Period").

The instructions then go on and provide an example of how this works:
For example, if the Borrower received its PPP loan proceeds on Monday, April 20, and the first day of its first pay period following its PPP loan disbursement is Sunday, April 26, the first day of the Alternative Payroll Covered Period is April 26 and the last day of the Alternative Payroll Covered Period is Saturday, June 20.

But a note: Borrowers use the alternative payroll covered period only for payroll. Not for rent, interest or utilities.

Accrual-ish Accounting Allowed

Another useful accommodation from the SBA? The loan application tweaks the requirement that spending be "paid and incurred" during the eight-week covered period or alternate payroll covered period.

The specific tweak? The forgiveness application allows accrual-ish accounting. For payroll costs, for example, the loan application notes that payroll costs "are considered paid on the day that paychecks are distributed or the Borrower originates an ACH credit transaction" and then "incurred on the day that the employee's pay is earned."

But then application provides this hack:
Payroll costs incurred but not paid during the Borrower's last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if paid on or before the next regular payroll date.

This quoted bit helps. A lot. It means small businesses don't need to reschedule one payroll period to end the last day of the covered period.

The loan application provides a similar accommodation for rent, interest and utilities costs, stating:
An eligible nonpayroll cost must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period.

Note that eligibility stems *either* from a nonpayroll cost being paid. Or from a nonpayroll cost being incurred and then paid on or before the next regular billing date. That "either/or" option gives you some flexibility.

Usefully, the loan application also lists out what counts as utilities: "business payments for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020."

Owner Compensation Capped at 2019 Compensation Levels
The loan application provides several other useful answers about how forgiveness works too.

For example, the application caps owner compensation payroll costs to what was paid in 2019. Here's the slightly parsed language from the application instructions with a key bit boldfaced:

"any amounts paid to owners (owner-employees, a self-employed individual, or general partners)… [are] capped at $15,385 (the eight-week equivalent of $100,000 per year) for each individual **or the eight-week equivalent of their applicable compensation in 2019, whichever is lower.**

That rule surprises no one, probably. But folks wondered if a bump in owner compensation might allow someone to nudge up their payroll costs. (You can't blame people for thinking about this.)

Proprietor and Partner Draws Required
The accountants have argued a lot about whether the owner compensation replacement needs to be paid. Some said you just needed to "show" a copy of the borrowers 2019 tax return.

The paycheck protection program loan forgiveness application says different. Here's the actual instruction for owner's compensation with the key bit boldfaced:

*Line 9: Enter **any amounts paid to owners** (owner-employees, a self-employed individual, or general partners).*

A New Pay Rate Reduction Safe Harbor?

You maybe know this, but if an employer reduces people's wages, that reduction may also reduce the loan forgiveness amount. (See this blog post for more information about how someone loses PPP loan forgiveness.)
The earlier SBA guidance said that if an employer reverses earlier salary and pay rate reductions by June 30, no reduction in the forgiveness occurs. (Which is good. This counts as a safe harbor.)

The loan forgiveness application creates a new, second safe harbor for salary or wage rate reductions.

Specifically, the loan application's instructions say you should also compare the average wages paid on February 15, 2020 to "the average annual salary or hourly wage between February 15, 2020 and April 26, 2020." If employee salary and wage rates have moved around a bit but people on average make as much as they did before? Good news. No reduction in the forgiveness occurs. (Another safe harbor. Apparently.)

For example, suppose you used to employ two workers making $40,000. That average wage equals $40,000. Obviously. If you replaced these two workers with new team members making $30,000 and $50,000, your average wage still equals $40,000. And you should be fine. Because you still average $40,000 per worker.

Simplified FTE Formula
Small businesses can also lose forgiveness if they reduce their employee headcount as measured by full-time equivalent, or "FTE," employees. (More information here.) Usefully, then, the application describes a simplified full-time-equivalent formula that firms can use.

That method? You count employees who work 40 hours or more per week as 1 FTE. You count employees who work fewer hours as .5 of an FTE.

No 75% Threshold?
And then two quick other things obvious from the loan forgiveness application.

At least a handful of accountants—including me—worried that you needed to spend at least 75% of your loan amount on payroll to get forgiveness.

So, to use a worst case scenario to explain, suppose the bank bungled your PPP loan. Suppose they gave you $25,000 instead of $20,000. (Maybe they did this because they incorrectly treated your 1099 independent contractors as employees.)

Further suppose that your payroll costs for the covered period only ever could have equaled $15,000.

Had the bank funded the right amount–$20,000 in this example—you would hit the 75% threshold and be fine. Because $15,000 equals 75% of $20,000.

But $15,000 equals 60% of $25,000. And so if the 75% worked the way some of us worried, you were, well, a cooked goose.
Fortunately, the loan forgiveness application says your total forgiveness just needs to include at least 75% payroll costs.

The actual formula does this by limiting forgiveness to the amount calculated as your total payroll costs divided by .75.

For example, with $15,000 of payroll costs, that means up to $20,000 of forgiveness. Because $15,000/.75 equals $20,000.

In this case, it doesn't destroy forgiveness if you incorrectly received $25,000. You will get forgiveness of $20,000 if you spend at least $15,000 on payroll and $5,000 on rent, interest and utilities.

Two Final Thoughts
Let me leave you with two final thoughts about the loan forgiveness application.

First, many small business borrowers probably want to get their accountant's help with the application. The reason? The application form requires accounting that probably exceeds the skills and comfort level of many small business owners. In other words, completing the PPP loan forgiveness application resembles a simple tax return. (Check out the form and instructions now to see if you're in this boat. There's a link to the form and instructions below.)

Second, accounting firms with lots of PPP loan borrowers need to plan on helping clients with these loan applications this summer. So train people. Devise workflow procedures. Schedule resources. In other words, basically another "mini-tax season" during the summer. When you thought you might be able to take a break. And then when you're working on the tax returns due July 15.