



Building a better
working world

Changes to the existing Paycheck Protection Program

Frequently Asked Questions | January 2021



The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the Act), which provides \$900 billion in new COVID-19 relief funding, was signed on December 27, 2020. The Act, among other things, reauthorizes lending under the Paycheck Protection Program (PPP) through March 31, 2021; revises certain PPP provisions; expands the types of expenses eligible for loan forgiveness; provides for a second round of loans for certain borrowers; and establishes the Shuttered Venue Operators Grant program.

On January 6, 2021, the U.S. Small Business Administration (SBA) and the Department of the Treasury issued the following interim final rules (IFRs):

“Business Loan Program Temporary Changes; Paycheck Protection Program as Amended,” which incorporates Act amendments, consolidates interim final rules and important PPP guidance issued to date, and provides general rules relating to loan increases and loan forgiveness (the Consolidated First Draw PPP IFR). The Consolidated First Draw PPP IFR can be found [here](#).¹

“Business Loan Program Temporary Changes; Paycheck Protection Program Second Draw Loans,” which incorporates Act amendments, consolidates interim final rules and important PPP guidance issued to date, and provides general rules relating to Second Draw PPP Loans (the Second Draw IFR). The Second Draw IFR can be found [here](#).²

This series of frequently asked questions is intended to address concerns most commonly raised as a result of this newly issued guidance impacting the PPP.

1. Can a business apply for a PPP loan?

Yes, the PPP has been extended through March 31, 2021. The eligibility requirements for a business applying for a first draw loan are generally the same as they were in the first round. First draw loans are generally limited to businesses with a maximum of 500 employees (including domestic and foreign affiliates). See [here](#) for the new Borrower Application Form.³

2. Which borrowers are impacted by the recent changes?

- ▶ Borrowers seeking to apply for a First Draw PPP Loan
- ▶ Borrowers requesting loan increases or that previously returned PPP loan proceeds
- ▶ Borrowers submitting applications for loan forgiveness following enactment of the Act
- ▶ Borrowers with loan forgiveness applications submitted before enactment of the Act where SBA has not remitted the forgiveness payment

3. What changes were made relating to businesses types that are eligible for a First Draw PPP Loan?

The following entities are now eligible:

- ▶ Certain news organizations
- ▶ Certain 501(c)(6) organizations/destination marketing organizations that employ no more than 300 employees

1 <https://home.treasury.gov/system/files/136/PPP-IFR-Paycheck-Protection-Program-as-Amended-by-Economic-Aid-Act.pdf>

2 <https://home.treasury.gov/system/files/136/PPP-IFR-Second-Draw-Loans.pdf>

3 <https://home.treasury.gov/system/files/136/PPP-Borrower-Application-Form.pdf>



4. Can PPP borrowers reapply or request an increase in their PPP loan amount?

Yes, the following existing PPP borrowers that have not received loan forgiveness by December 27, 2020, can reapply or request an increase in their PPP loan amount:

- ▶ Partnerships that received a PPP loan that did not include any compensation for their partners.
- ▶ A seasonal employer who received a PPP loan before December 27, 2020, who would be eligible for a higher maximum loan amount using the new 12-week testing period under the Act.
- ▶ If a borrower returned all of a PPP loan, the borrower may reapply for a PPP loan in an amount the borrower is eligible for under current PPP rules.
- ▶ If a borrower returned part of a PPP loan, the borrower may reapply for an amount equal to the difference between the amount retained and the amount previously approved.
- ▶ If a borrower did not accept the full amount of a PPP loan for which it was approved, the borrower may request an increase in the amount of the PPP loan up to the amount previously approved.

5. How has the calculation of the maximum loan amount changed?

The maximum loan amount remains the lesser of (A) \$10,000,000 or (B) 2.5x the borrower's average monthly payroll costs. The Act permits a borrower to choose the 2019 or 2020 calendar year as the base period for determining their average monthly payroll.

6. What changes were made related to permissible forgivable expenses?

The following categories have been added to the list of expenses that are eligible for forgiveness:

- ▶ **Covered operations expenditures** – Payments for any business software or cloud computing service that facilitates business operations, product or service delivery; the processing, payment or tracking of payroll expenses; human resources, sales and billing functions; or accounting or tracking of supplies, inventory, records and expenses
- ▶ **Covered property damage costs** – Costs related to property damage and vandalism or looting due to public disturbances that occurred during 2020 that was not covered by insurance or other compensation
- ▶ **Covered supplier costs** – Expenditures made by a borrower to a supplier of goods for the supply of goods that (A) are essential to the operations of the borrower at the time at which the expenditure is made and (B) are made pursuant to a contract, order or purchase order (i) in effect at any time before the covered period with respect to the applicable covered loan or (ii) with respect to perishable goods, in effect before or at any time during the covered period with respect to the applicable covered loan
- ▶ **Covered worker protection expenditures** – Operating or capital expenditures to facilitate the adaptation of the business activities of an entity to comply with requirements related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19

Note: Expenditures on residential real property and other intangible property are not covered in this category.

In addition, the Act amends the definition of "payroll costs" to include payments for the provision of group life, disability, vision and dental insurance benefits.

Note: Borrowers are still required to spend at least 60% of their PPP loan proceeds on eligible "payroll costs" to be eligible for full forgiveness.

Note: The expansion of expenses eligible for loan forgiveness does not apply to a borrower that received forgiveness before the date of enactment of the Act.



7. What changes were made to a borrower's ability to choose a covered period?

A borrower may now select a covered period that begins on the date the lender disburses the PPP loan and ends between 8 and 24 weeks after the date of disbursement. Because the Act changed the determination of the covered period, the SBA is eliminating the alternative payroll covered period.

8. What is the simplified forgiveness application process?

Borrowers with PPP loans of \$150,000 or less will be eligible for loan forgiveness if the borrower signs and submits a one page certification to the lender (A) describing the number of employees the borrower was able to retain because of the PPP loan, the estimated amount spent on eligible payroll costs and total PPP loan value and (B) attesting that it accurately provided the required certification and complied with applicable PPP requirements.

9. What changes were made for borrowers who received an Economic Injury Disaster Loan (EIDL) advance?

The Act repealed the requirement that the amount of any EIDL advance received by a borrower be deducted from the forgiveness amount. Any EIDL advances previously deducted from a borrower's forgiveness amount will be remitted to the lender, together with interest to the remittance date.

10. Does the Act require the SBA to provide guidance on how it will audit PPP loans?

The Act requires that the SBA, within 45 days after enactment of the Act, provide an audit plan that details:

- ▶ The policies and procedures for conducting forgiveness reviews and audits of PPP loans
- ▶ The metrics that will be used to determine which PPP loans will be audited

11. Are business expenses that are funded with proceeds of a forgiven PPP loan deductible for income tax purposes?

Yes, such expenses are deductible. The Act provides that no deduction for business expenses funded with the proceeds of a forgiven PPP loan may be denied by reason of the exclusion of the loan forgiveness from gross income.

12. Can a borrower be eligible for both the Employer Retention Credit and PPP loan forgiveness?

Yes, the Act allows borrowers that obtained a PPP loan to also claim the Employer Retention Credit for eligible wages, provided that the eligible wages are not included in the borrower's loan forgiveness application as part of the payroll costs.

EY | Building a better working world

About EY

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2021 Ernst & Young LLP.
All Rights Reserved.

SCORE no. 11614-211US_2
2101-3681105
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com