AICPA Recommendations
PPP Application and Forgiveness Processes

The American Institute of CPAs, the AICPA-led Coalition, and other key stakeholders - collectively representing 44K CPA firms, 3.5M small businesses and 60M employees - have come together to drive a common understanding and approach around the implementation and execution of the U.S. Treasury and Small Business Administration Paycheck Protection Program (PPP).

Based on these collective discussions and our understanding of the intent of the PPP program, the AICPA is making the following broad recommendations for the PPP application and forgiveness processes. These AICPA recommendations are not meant to be comprehensive. Rather, these recommendations are meant to help minimize confusion and complexity for applicants and to help drive consistency with lenders.

Our overall objective is to help drive an effective PPP application and forgiveness processes that quickly directs relief funds into the hands of small business owners and their employees.

Part 1 - PPP Application

I. For Employers:

1. **Federal payroll tax reports:** 2019 IRS Forms 941 and annual Forms W-3 or 944. If your organization contracts with a payroll provider or Professional Employer Organization (PEO) you can supply other documents, such as reports reflecting employment tax returns filed.
2. **Compensation:** In general, payroll reports for calendar year 2019 or the previous 12 months, which will include the following:
   - Gross wages for each employee, i.e. from Forms W-2 and/or W-3, Box 5.
   - State and local employer taxes assessed on an employee's compensation (i.e. SUTA).
   - For seasonal businesses, use average monthly payroll beginning February 15, 2019 or March 1, 2019 through June 30, 2019 or any consecutive 12-week period between May 1 through Sept. 15, 2019.
   - For organizations that were not in business during the period February 15, 2019 through June 30, 2019, use January 1, 2020 to February 29, 2020.
3. **Group health care benefits:** Documentation showing total costs paid for all health care benefits, including insurance premiums paid by the organization under a group health plan.
   - Include all employees and company owners.
   - Do not include employee withholdings for their portion of contributions to the plan.

4. **Retirement plan benefits:** Documentation showing the sum of all retirement plan funding costs paid by the organization.
    - Include funding for all employees and the company owners.
    - Do not include employee withholdings for their portion of contributions to the plan.
    - Reporting period to match the compensation period included in item 2.

Additional Points For Gathering Employer Documents

PPP-Compliant Payroll Cost Reports: Many national payroll service providers have developed reports specifically to calculate payroll costs in accordance with the CARES Act; e.g., limiting wages to no more than $100,000 per employee; omitting employees that reside outside the U.S.; including retirement contributions, employer costs of health coverage and state and local employer taxes on such wages. If such reports are available, they should be viewed as substantiation of payroll costs, subject to review and verification by the employer. If employer retirement contributions and employer costs of health coverage are not included in the report, the employer can provide those costs separately.

Master Payroll Report: If a PPP-compliant payroll cost report is not available, a payroll service provider may provide a master payroll report that includes items 1 and 2 on the previous page. Additionally, if the payroll processing company also supports your health care and retirement benefit reporting, items 3 and 4 may also be included in the master payroll report. If employer retirement contributions and employer costs of health coverage are not included in the report, the employer can provide those costs separately.

Independent contractors not included in employer payroll calculation: Independent contractors should NOT be included in the payroll cost calculation for employers.

II. For Sole Proprietors, Independent Contractors and Self-Employed Individuals*:

(*This is only if operating in 2019. No SBA guidance related to required documents if your business started in 2020)

1. The 2019 Form 1040 Schedule C to verify net income (line 31). A prepared Schedule C that has not yet been filed is sufficient for the application. If you have not prepared a 2019 Schedule C, the AICPA is recommending that you be allowed to provide a filed 2018 1040 Schedule C.
2. Documentation of self-employed status in 2019 such as, a 2019 Form 1099-MISC, invoice or bank statement.
3. Documentation of self-employed status as of Feb. 15, 2020, such as an invoice or bank statement.
4. If you have employees, provide payroll documentation as outlined above, including documentation of healthcare and retirement benefits costs. A payroll report for the period including Feb. 15, 2020 should also be provided.

III. Other Application Clarifications

1. Use the gross payroll approach for both loan applications and forgiveness. Also employer FICA should not be included.
2. The $100,000 salary limitation does not include healthcare, retirement benefits, and state and local taxes. However, housing stipends or an allowance provided to an employee as part of compensation is included in the $100,000 salary limitation.
3. Applicants who use payroll service providers or PEOs can provide reports reflecting tax filings since all employment tax returns are electronically filed. Further, PEOs cannot produce individual entity payroll tax documents.
4. Third-party certification is not necessary for the loan application. The borrower is solely responsible for certifying to the statements described in 13 CFR Part

Part 2 - PPP Loan Forgiveness

I. Loan forgiveness documentation for employers

1. **Payroll tax reports:** 2020 IRS Forms 941, state income and unemployment tax returns that include the 8-week covered period. (See recommendation below regarding 8-week covered period.) If your organization contracts with a payroll provider or Professional Employer Organization (PEO) you can supply other documents, such as reports reflecting employment tax returns filed.
2. **Compensation and FTEs:** In general, payroll reports which will include the following:
   a. Gross wages for each employee for the following:
      i. During the 8-week covered period
      ii. During the most recent full quarter before the 8-week covered period
   b. Identifying employees who during any period in 2019, received an annualized pay of more than $100k and also employees whose principal place of residence is outside the U.S.
   c. State and local employer taxes assessed on an employee's compensation (i.e. SUTA) during the 8-week covered period
   d. The average number of full-time equivalents (FTEs) per month for the following:
      i. During the 8-week covered period
      ii. Feb. 15 through June 30, 2019
      iii. Jan. 1 through Feb. 29, 2020
      Note: borrower elects which period, ii or iii, to compare to i.
   e. For seasonal businesses, use average number of FTEs per month during the period February 15, 2019 through June 30, 2019.
3. **Group health care benefits:** Documentation showing total costs paid for all health care benefits, including insurance premiums paid by the organization under a group health plan.
   a. Include all employees and company owners.
   b. Do not include employee withholdings for their portion of contributions to the plan.

4. **Retirement plan benefits:** Documentation showing the sum of all retirement plan funding costs paid by the organization.
   a. Include funding for all employees and the company owners.
   b. Do not include employee withholdings for their portion of contributions to the plan.
5. **Other documentation:** Canceled checks, receipts, account statements or other documentation of payment for other eligible costs incurred and paid during the covered period such as mortgage interest, lease payments, utility payments.

II. For Sole Proprietors, Independent Contractors and Self-Employed Individuals

1. The 2019 Form 1040 Schedule C to verify net income (line 31) for owner income replacement calculation.
2. If you have employees, provide payroll documentation as outlined above, including documentation of healthcare and retirement benefits costs. Exclude owner from healthcare and retirement costs.
3. Canceled checks, receipts, account statements or other documentation of payment for other eligible costs incurred and paid during the covered period such as mortgage interest, lease payments, utility payments. Note: these types of expenses must have been deducted on the 2019 Form 1040 Schedule C to be eligible for forgiveness.

III. Forgiveness Recommendations

The following four broad recommendations are provided to encourage a consistent and efficient approach to loan forgiveness that aligns with borrower operations and the intent of the PPP

1. **Recommendation: Align beginning of 8-week covered period with beginning of a pay period, rather than the date loan proceeds are received.**
   - We recommend beginning the calculation of the 8-week covered period as the date of either the beginning of the payroll period during which funding was received, or the beginning of the next payroll period, at the borrower's discretion. For example, if funding is received on April 10 and the borrower's normal pay cycle is semi-monthly, the borrower could elect to start the 8-week covered period on April 1 or April 16. Using this approach, rather than beginning the covered period when funding is received, will provide borrowers more opportunity to use the PPP funds for their primary purpose – keeping employees on the payroll. Additionally, using an approach that aligns to the borrower's operations will result in a more efficient, consistent approach.
2. **Recommendation: Begin the 8-week covered period when operating restrictions are lifted, rather than the date loan proceeds are received.**
   - If a borrower receives PPP funding while its operations are shut down due to shelter-in-place orders or essential business restrictions, etc., we

recommend the start of the 8-week covered period be based on when the restrictions are lifted and the borrower is allowed to operate - using either the beginning of the payroll period during which operating restrictions were lifted, or the beginning of the next payroll period, at the borrower's discretion. This allows funding to be used to quickly get the borrower back up and running, rather than limiting the use of the funds to a time period when they are not permitted to operate.

3. **Recommendation: Defining Full-time Equivalents**
    - Because the CARES Act does not define how to calculate a full-time equivalent (FTE), we recommend following the definition under the Affordable Care Act (ACA) of 30 hours.
    - Also because hours are not always collected for certain types of employees (e.g. salaried workers or those paid by piecework), we recommend using a wage-based proxy for determining FTEs.
        - If hours worked are not available, employees would be deemed an FTE if earnings are over $217.50 – the Federal minimum wage x 30 hours a week [$7.25 x 30 = $217.50].
          Employees earning less than $217.50 /week would be considered a pro-rated FTE; e.g., an employee that earns $200/week would count as 0.92 of an FTE ($200/$217.5 = 0.92).
        - This approach allows for a straightforward calculation that consistently measures the number of FTEs based on the Federal minimum wage and a standard definition of the number of hours worked to be considered an FTE.
        - It's important to recognize that any measure used to determine FTEs will work since it is not the measure, but the comparison of measured results from the two periods that will result in potential reduced forgiveness. Consequently, selecting a measure that is simple, consistent and able to easily be applied across all employee types and all time periods is paramount.
        - We strongly believe this recommendation meets that goal by being very straightforward. Any decrease in compensation does not factor into this data point, therefore, this simple approach leads to a result that identifies any reduction in employee headcount when consistently applied to the various time periods.
4. **Recommendation: Payroll reduction calculation should be done based on the average payroll per employee per week rather than the total compensation per employee in an 8-week period versus the prior quarter.**
    - The CARES Act includes a provision for a reduction in loan forgiveness for any employee whose compensation decreased by more than 25% from the 12-week quarter and the 8-week covered period. However, 8 weeks will naturally have 33% less payroll due to the fewer number of weeks in the time period.
    - Additionally, individuals who were employed during the most recent full quarter may be unable or unwilling to return to work.

- We strongly recommend using an average payroll per employee per week comparison as that approach is in line with the intent of the CARES Act and provides a clear indication if an employee's wages have been decreased.
- We also strongly recommend that this calculation exclude employees who are not active employees throughout the covered period. For example, if someone worked Jan. 1 through March 31 and changed jobs in April, their pay during the covered period would appear to have been reduced by well over 25% compared to the base period. Any reduction in headcount is measured separately; therefore, we recommend only including employees who were active through the entire 8-week covered period.

NOTE: AICPA has requested further clarification on how reductions in forgiveness are to be applied

- **Clarity needed regarding how reductions in forgiveness are to be applied**
  - Some of the forgiveness requirements cause a dollar reduction while others produce a percentage reduction. The order in which these are applied can have a significant impact on the forgiveness amount.
  - Clarification is necessary to know if the Act lists forgiveness reductions in the intended order of application.