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SBA Releases Long-Awaited PPP Forgiveness Application and Instructions

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By: [Rachel B. Goldman](#), [David A. Shargel](#), [David J. Ball](#), [Thomas F. Kokalas](#), and [Joseph Lund Lasher](#)

On May 15, the SBA and Treasury released the long-awaited [PPP loan forgiveness application and related guidance](#), providing much-needed clarity and ending weeks of speculation about how borrowers will obtain loan forgiveness. The application and instructions confirm that if a borrower used at least 75% of the loan proceeds on eligible payroll costs, no more than 25% on eligible non-payroll costs, and maintained staffing and salary levels, the PPP loan may be forgiven in full. The application further confirms the forgiveness amount will be reduced correspondingly by a failure to follow these requirements.

The application and instructions provide step-by-step directions for borrowers to calculate their eligible forgiveness amounts. Additionally, they provide new guidance and points of clarification, including:

- Borrowers may now elect to utilize the “Covered Period” or an “Alternative Payroll Covered Period” to determine the eight-week period during which loan proceeds must be spent in order to qualify for forgiveness. Borrowers who use a biweekly payroll schedule, or a more frequent schedule, may choose to have the eight-week period begin on the first day of its first pay period following loan disbursement, rather than on the date of disbursement.
- Payroll costs that are incurred, but not yet paid, during the eight-week period (capped at \$15,385 per employee reflecting the PPP’s \$100,000 annual salary limitation) will be eligible for forgiveness if paid on or before the next regular payroll date.
- Compensation paid to owners, such as owner-employees, self-employed individuals, or general partners, are separately categorized and calculated (also capped at \$15,385 per individual), but are included in payroll costs for forgiveness purposes.
- There is no penalty for a reduction in staffing or salary for an employee if the borrower made a good-faith, written offer to rehire the employee during the eight-week period, or if the employee was fired for cause, voluntarily resigned, or voluntarily requested a reduction of hours.
- Borrowers are required to maintain all documentation related to the PPP loan for six years after the loan is forgiven or repaid in full and allow the SBA or Office of Inspector

General to access such files upon request.

As expected, the forgiveness application requires the borrower to indicate whether it received a loan in excess of \$2 million (when aggregated with any affiliates). This corresponds with the [SBA's prior announcement](#) that it would audit loans over \$2 million to ensure that the borrower properly certified in good faith that, given current economic conditions, the loan was necessary to support ongoing operations.

The application further specifies documentation that is required to be submitted and/or maintained to substantiate the borrower's payroll costs, staffing and salary, and non-payroll costs, such as mortgage interest payments, rent or lease payments, and utility payments.

According to the [press release](#) announcing the forgiveness application, the SBA will release additional "regulations and guidance to further assist borrowers as they complete their applications, and to provide lenders with guidance on their responsibilities."

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