



## HAYASHI | WAYLAND

To Our Valued Clients and Friends:

We want to provide some answers to the frequently asked questions we are getting regarding the Paycheck Protection Program (PPP) funding from the SBA. The questions and answers below are intended to help you begin gathering information to determine what may qualify for loan forgiveness under the guidelines of the program. Ultimately, forgiveness of the loan proceeds will be determined by your individual lender and we expect there will be some variations in what each banking institution requests, similar to what we saw with the required support for the loan application. Information and guidance regarding this program is fluid, as each day additional details and questions arise from the legislature and regulators. It is important that you keep up to date with the changing landscape. The links provided below are good resources to check regularly regarding updates.

**Question: I have been hearing a lot about PPP loan recipients needing to closely evaluate whether they are eligible to accept the PPP funding based on the severity of economic harm that has been caused to their business. What needs to be taken into consideration for us to correctly evaluate this?**

**Answer:** On the news you may have seen many large companies, such as the Los Angeles Lakers and Shake Shack, returning PPP funds. As part of the loan application process there were certifications that applicants had to make including the statement that “current economic uncertainty makes the loan necessary to support your ongoing operations.” The Department of the U.S. Treasury has created a FAQ with guidance in this area, particularly the responses to questions 17, 31, 39 and 43. [Click here](#) to see the full document. We expect more guidance to be issued on this subject as noted in response to question 43.

As a best practice, we recommend that each business document the reasoning and support for acceptance of the funding and how the entity meets the certifications that were signed as part of the application process. As noted on the Treasury FAQ, companies have until May 14<sup>th</sup> to return the PPP funds if they feel that they do not meet the qualifications and fall under the safe harbor. Be sure to continue to check this resource for additional updates on this developing concern over the acceptance of PPP funding.

**Question: What is the timing of expenses that will be allowable for forgiveness under the loan? Is it based on the cash basis or accrual basis of accounting?**

**Answer:** Question 20 of the [Treasury Frequently Asked Questions](#) addresses that the eight-week evaluation period begins on “the date the lender makes the first disbursement of the PPP loan to the borrower.” The question regarding the cash versus accrual basis is addressed on the AICPA frequently asked questions under loan forgiveness. It states that “more guidance is needed on this issue. The



Treasury Department guidance provided discusses “payments”, but further clarification is needed.” To read the full AICPA FAQ guidance [click here](#).

As a best practice, we recommend that you keep track of expenses based on the method used in your books and records. If you generally report on the cash basis of accounting then you would keep track on the cash basis, if your books are on the accrual basis of accounting you will keep track on the accrual basis until further guidance is provided.

**Question: I received a deposit in my bank account from the SBA. Is this my PPP loan? What should I do with this funding?**

**Answer:** Many companies applied for funding through the Economic Injury Disaster Loan and Advance program (EIDL) in addition to the Payroll Protection Program (PPP) through the SBA. Per the SBA website for disaster loan applications “small business owners in all U.S. states, Washington D.C., and territories were able to apply for an Economic Injury Disaster Loan advance of up to \$10,000. This advance is designed to provide economic relief to businesses that are currently experiencing a temporary loss of revenue. This loan advance will not have to be repaid.” These funds, which will be \$10,000 or less, are separate from the PPP funding. If your company did receive this grant the amount of your PPP loan forgiveness will be reduced by the amount received as a grant from the EIDL program. These funds will generally be deposited in your bank account without notification from the SBA EIDL program.

**Question: Will the forgiveness of the PPP loan be taxed? Are the expenses tax deductible if the loan is ultimately forgiven?**

**Answer:** As noted in the [AICPA frequently asked questions](#) on loan forgiveness, “No, the forgiveness of the loan does not constitute federal taxable income. States are providing guidance on state taxability...”. The IRS issued [IRS Notice 2020-32](#) on April 30, 2020, which states that no deduction is allowed for an expense that is otherwise deductible, if the payment of the expense results in forgiveness of a PPP loan. However, the IRS ruling may not be the last word. Concerns are being expressed in Congress that the IRS ignored the intent of the PPP with their position and legislation is being drafted which would allow the deduction of those expenses. Rules related to tax treatment and forgiveness for the Paycheck Protection Program are still being clarified and revised.

**Question: What could reduce the amount of my PPP loan that is forgiven?**

**Answer:** The AICPA has also noted in their frequently asked questions further clarity needs to be provided “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.”



We are working through and sharing information and tools with you so that you can determine the best estimate of your eligibility for forgiveness. For now, it is just an estimate and one that can be adjusted as further guidance is provided. We will continue to share with you best practices and what we have learned weekly to keep you and your business moving forward. Please reach out to us as questions arise.

**Who will have the final say?**

As you can see, we are waiting on further guidance regarding the PPP forgiveness eligibility in many areas. We understand that it can be frustrating as you are working to plan what is the best for your business. We are here to talk through any issues that you feel are relevant and we will continue to share information as it becomes available.

