The PPP Flexibility Act Triples Time to Use Funds and Reduces Required Payroll Percentage!

The Senate passed the PPP Flexibility Act. The Act is expected to make it easier to obtain full forgiveness. Here's what it means for nonprofits:

Time Period to Use Funds Tripled to 24 Weeks, Date to Restore Workforce Extended to December 31, 2020

The Paycheck Protection Program (PPP) Flexibility Act (PPPFA) increases the time period during which organizations may use the funds for expenditures that will qualify for forgiveness to 24 weeks from the date funds are disbursed. Organizations are also allowed to keep the original 8 week period, should that better suit their circumstances. The date by which borrowers can restore workforce levels and wages to pre-COVID-19 levels is also extended to December 31, 2020. Previously the deadline was June 30, 2020.

Required Payroll Portion Reduced, Other Allowed Expense Portion Increased, New Ratio is 60/40

The PPPFA also reduces the amount required to be expended on payroll costs to at least 60% of the total, while allowing up to 40% to be expended on other allowed costs. With this change comes a change in the forgiveness. If a minimum of 60% of the PPP loan is not used for payroll costs during the forgiveness period, then none of the loan will be forgiven.

The prior requirement was that 75% of the total PPP loan be spent on payroll costs and no more than 25% on other allowed costs with forgiveness reduced if the 75% threshold was not met.

New Adjustments Allowed in Determining Workforce Level

The PPPFA offers two exceptions that may help loan recipients obtain full forgiveness. The workforce level at December 31, 2020, may now be adjusted if qualified employees cannot be found or if an organization has been unable to restore business operations to February 15, 2020 levels due to COVID-19 related restrictions.

PPP Loan Holders May Also Defer Payroll Tax Payments

The PPPFA allows those with a PPP loan to also defer their payroll tax payments. This reverses the prior prohibition under the Coronavirus Aid, Relief and Economic Security Act, (CARES Act).

Repayment Period Extended to Five Years

The PPPFA extends the repayment period for PPP loan amounts not forgiven from two years to five years for new PPP Loans. Existing PPP loans may be extended to the five year term if the lender and borrower both agree to do so. Additionally, under CARES there was a 6 month deferral before repayment began. Under PPPFA, the deferral is until the SBA determines the amount of the loan forgiveness and remits to the lender. If forgiveness is not applied for, payments will be due within 10 months of the last day of the covered period.

Some things have NOT changed for PPP loans:

- The PPP loan application deadline is still June 30, 2020
- The PPP Loan amount continues to be based on 10 weeks of payroll costs
- The PPP interest rate remains unchanged at 1%