Episode 27

Everything You Need to Know About Last Week's PPP Changes

PAYCHEX Business Series

Coronavirus

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Full transcript

Gene Marks:
Hey everybody. Welcome to the Paychex Business Series podcast. I'm your host, Gene Marks. I'm a certified public accountant and regular business columnist for a bunch of publications, including *Forbes* and *Entrepreneur* and *The Guardian* and *The Hill*. But more importantly, I'm a small business owner of a financial and technology management services company. I've teamed up with Paychex, the leading provider of human resources, payroll benefits, and insurance services, to bring you real-life advice from real-life business owners and industry experts.

And, in this podcast, we'll talk about the complexities of running a small business, and how they're handling the challenges they face. Actually, we're going to do it a little bit differently on this one. We're going to talk about the complexities around the Paycheck Protection Program. I've got with me today Connor Mykins, who is a compliance analyst at Paychex. Connor, welcome.

Connor Mykins:
Hey Gene, glad to be here.

Gene Marks:
Glad to have you on as well. I have a bunch of questions for you, but I thought that really we'll throw things out. Today—we're recording this on a Monday—the previous Friday, the president signed into law the PPP Flexibility Act. It has a lot of wide-reaching impacts on a lot of business owners. Your job is compliance. I know you're knee-deep into this. So tell us, Connor, give me some of the thoughts on this act. Let's start. I'll prompt you with a few. One of the major things it does is it extends the forgiveness period. What exactly does that mean? And how does that impact a business owner?

Connor Mykins:
Yeah, absolutely. So Gene, like you said, it was a really wide-sweeping change that was made extending that eight-week covered period that was in the CARES Act. It was extended out to the 24 weeks for borrowers. And what that means is they now have 24 weeks to be able to use their loan proceeds toward eligible payroll costs to maximize their loan forgiveness. I will add though, for borrowers who did receive their loan prior to 6/5, the enactment of the Paycheck Protection Program Flexibility Act, they can continue to use their eight-week covered period, but they certainly can extend out to the 24-week covered period if they choose to.

Gene Marks:
Got it. And who do you think this will affect the most, the extension of those weeks, Connor?

Connor Mykins:
It really will affect the small businesses that really could not ramp up their operations as quickly as they liked to. And I really think by the extension of the covered period, it really shows that this pandemic lasted a lot longer than what everyone anticipated. So specific industries, I could see, probably like the restaurant industry, or any service-driven industries that have face-to-face contact, I really think that this will benefit them a lot.

Gene Marks:
All right. That makes sense. So we've been extended now to 24 weeks for eligible expenses. Tell me about those eligible expenses as well as this new split, the maximum amount that you can spend on non-payroll-related expenses?

Connor Mykins:
Yeah, absolutely. In the CARES Act, it was originally 75% of your loan proceeds must be used toward payroll costs. That was actually reduced down to 60% under the Flex Act. And on the other side, now 40% of non-payroll costs can be used; your loan proceeds can be used toward non-payroll costs. That's a really big item for our clients in high-rent jurisdictions, where they can now use more of their loan proceeds toward non-payroll costs, such as rent and utilities. So, that's a really big item that was passed in the Flexibility Act.

Gene Marks:
Some people were asking about these non-payroll costs. At first, I thought it was rent, just for your actual office rent. But I think the definition of rent extends beyond that. Am I right?

Connor Mykins:
Yeah, you are right. And I think that really was snuck into the text. It doesn't really get a lot of attention, but it does appear that the rent expense can be used for personal reasons. Yeah.

Gene Marks:
Right. And also for things like personal property, maybe car leases or a forklift or something like that. And then utilities expense as well. What falls under that? Is it considered to be utilities?

Connor Mykins:
You have your internet, you have your water bill, your gas and electric. Those are the really big-ticket items. And they also threw in a transportation expense under utilities. It's really not clear what that means at this point. We're still waiting on a lot of guidance, but they were anticipating on releasing some FAQs, about 30 of them. But with the Flex Act passing, there has been a slight delay in that. We are still waiting on some additional guidance.

Gene Marks:
It's funny, you bring that up about "we're waiting and there's still lots of questions." But now, with the forgiveness period being extended for six months, you really don't even have to ... You've got 10 months after that to apply for forgiveness. I guess business owners shouldn't be really panicking about all this right now. What are your thoughts on that?

Connor Mykins:
Yeah. There's definitely time. And I think that's one thing that really sticks out to me with the Flex Act or the PPP Flex Act is that this really does allow for more time for our clients and for borrowers who did receive the PPP loan.

Gene Marks:
Right. That's exactly what I think. It definitely makes things more flexible. Headcount is the next one. Tell me about the changes there.

Connor Mykins:
Yep, absolutely. There was a head count reduction exemption, or a few of them actually, that were added to this in the Flex Act. So the FTE reduction exemption provides that loan forgiveness will not be impacted if the FTE reduction was due to an inability to rehire individuals who were employees of the eligible recipient on February 15th. They're able to hire similarly qualified employees for unfilled positions on or before December 31st. And also, which I think is really important, is that having employees return to the same level of business activity as before February 15th due to compliance with requirements established or guidance issued related to COVID-19. So that last item, that's a really big one, because a lot of businesses, like we touched on earlier, they were not able to open because of the compliance restrictions or guidance issued by the CDC. So this one really gives them that exemption and will help increase their loan forgiveness amount.

Gene Marks:
Yeah, that really will. And again, my understanding is that even if you can't restore your full head count by December 31st, you can still get some forgiveness, correct?

Connor Mykins:
Yes, that is correct. Sorry, I just wanted to add that it's really important to keep documentation. I know that's one really key element to this entire process: document, document, document. So that's really important to keep in mind.

Gene Marks:
When we're talking about head count, what about salaries as well? Is there any requirements for maintaining those?

Connor Mykins:
Yep, absolutely. So there is a requirement to maintain salaries in order to maximize loan forgiveness. Borrowers will have to maintain salaries to the pre-COVID period, and any drop in salaries that exceeds 25% of the comparative period, that will reduce the amount of the loan forgiveness. But again, now with the PPP Flexibility Act, that does extend out, provides a safe harbor extending out to 12/31.

Gene Marks:
You mentioned earlier about maintaining the right documentation. Can you give us an idea of what kind of documentation we should be making sure that we keep in good order for when it becomes time to apply for forgiveness?

Connor Mykins:
I do know that a report from your payroll provider is an acceptable format to really demonstrate the payroll costs. But it's also important to keep track of payments toward your mortgage interest, your rent, utility payments. I believe one of the examples is a canceled check, but I believe you could also use your bank statements to prove the expenses.

Gene Marks:
So Connor, we've talked about getting forgiveness. You've got 24 weeks to do this. You've got your payroll and non-payroll expenses. Now you can have as much as 40% of non-payroll expenses account for forgiveness. You do need to restore your head count, but what if you don't get forgiveness for all? What happens to the amount of the loan that is not forgiven?

Connor Mykins:
That was one other piece of the PPP Flex Act that was just passed on June 5th, is that the maturity period does extend out to five years. Now borrowers who did receive their loan before the enactment date, they would have to go back to their lender and come to terms and agree on the extension of the maturity date. But any borrower that does receive the loan after 6/5 will, by default, have a maturity date of five years.

Gene Marks:
Yeah. That interest rate is 1%, right?

Connor Mykins:
Yeah, that's right. It's a really low interest rate.

Gene Marks:
That's great stuff. So finally, people have asked me about payroll tax deferrals. What do we mean when the new bill says that you can still defer your payroll taxes, but still also participate in the PPP program?

Connor Mykins:
Yeah. So, prior to the enactment of the PPP Flex Act, borrowers could defer their taxes—the social security portion, the employer portion—up until the loan was forgiven. The IRS clarified that back a while ago, but now borrowers can qualify for the deferral of the employer share regardless of the loan forgiveness. And so now [inaudible 00:10:37] they could defer. So 50% would be due in 2021, and the remainder would be due in 2022. So that would absolutely help borrowers save some money during these tough times.

Gene Marks:
So, what do you think? You're a compliance analyst. You're dealing with a lot of this stuff with your clients and Paychex. Are you a fan of the Paycheck Protection Program?

Connor Mykins:
Yeah, absolutely. I think it's pretty clear that the program is working. It's moving very quickly, and a lot has changed since the application process opened on April 3rd. It is working. The job numbers were released last Friday. It was not anticipated that there was going to be a job increase; rather, they were expecting more job losses. So I think that's a testament to show that it is working. And there absolutely have been times where … the guidance for the loan application process wasn't released until close to midnight on April 2nd, before the process opened. So I know that it was definitely a stressful point for a lot of our banking partners. Overall, I think the program is working.

Gene Marks:
Connor Mykins is a compliance analyst at Paychex. And for more information about what we discussed today and other coronavirus questions and topics, please visit the Paychex COVID-19 Help Center. The address is paychex.com/coronavirus-resources. Connor, thank you very much. That was great information, a great summary of what we need to know about the PPP Flexibility Act. Thank you for joining us. Thanks everyone else for listening. And we will see you next time.

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