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ACCOUNTING

AICPA Recommends Lender Documents and Key Calculations to Use in PPP Applications

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Payroll

The American Institute of CPAs (AICPA) has recommended a defined set of documents for lenders to rely on as well as some key clarifications in the Treasury Department and Small Business Administration’s Paycheck Protection Program (PPP) application process.

The \$349 billion PPP is a key element of the \$2.2 trillion CARES Act and is designed to speed relief to small businesses impacted by pandemic restrictions. While not meant to be comprehensive, the AICPA recommendations cover documentation for employers and sole proprietors, as well as clarifications for other key areas.

“We are hearing from our firms and their clients about confusion as to which documents should be required as part of the PPP application process, as well as how to calculate key components of the forgivable loan,” said Mark Koziel, the AICPA’s executive vice president of firm services, “We have developed these recommendations to help minimize confusion for both our firms and the applicants and also to drive consistency with lenders. The Treasury Department and SBA have worked around the clock to deliver these important relief programs, and we are now playing our role by helping execute on the program.”

The recommendations were informed by discussions with an AICPA-led [small business funding coalition](#) and other stakeholders in the PPP process with ties to

44,000 CPA firms, 2.5 million small businesses and 30 million employees.

“Over the past few weeks, we have come together with our coalition and other key stakeholders to drive a common understanding and approach to implementation of PPP,” said Erik Asgeirsson, president and CEO of CPA.com, the AICPA’s business and technology arm. “The effectiveness of the Paycheck Protection Program depends on the quick distribution of funds, so it’s crucial we minimize complexity for small businesses that desperately need a lifeline right now. We look to support that goal by helping create consensus and clarity around the key parts of the program.”

The AICPA recommendations are described in the following document sent to members of Congress tonight:

AICPA Recommendations

PPP Application Documentation for Lenders

The American Institute of CPAs, the AICPA-led Coalition, and other key stakeholders—collectively representing 44K CPA firms, 2.5M small businesses and 30M employees—have come together to drive a common understanding and approach around the implementation 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 lender documents as well as providing direction on a few key calculations. These AICPA recommendations are not meant to be comprehensive. This is not intended to be used as a loan calculator. Rather these recommendations are meant to help minimize confusion and complexity for applicants and to help drive consistency with lenders.

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

For Employers

1. **Federal tax reports:** 2019 IRS quarterly reports on Form 941 and annual Forms 940 or 944. If your organization uses a Professional Employer Organization (PEO), you can supply other supporting documents.
2. **Compensation:** Payroll reports for calendar year 2019, which will include the following:

- Gross wages for each employee, including officer(s) if paid W-2 wages
- Paid time off, vacation pay and family medical leave pay for each employee, if not included in gross wages
- State and local taxes assessed on an employee's compensation (i.e. SUTA)
- For seasonal businesses, use a 12-week period between Feb. 15, 2019, or March 1, 2019
- For organizations that were not in business during the period beginning Feb. 15, 2019 through June 30, 2019, use Jan. 1, 2020, to Feb. 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
- Reporting period to match the compensation period included in Item 2

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

Master Payroll Report: Many small businesses use payroll processing companies that can provide a master payroll report that includes Items 1 and 2 above. 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.

Independent contractors not included in employer payroll calculation: Some lenders originally requested that data include 1099s for independent contractors. However, 13 CFR Part 120, issued by the SBA on April 2nd states in item 2h (page 11) for a loan application that independent contractors should NOT be included in the payroll calculation for employers as any independent contractor should be submitting their own loan application.

For Sole Proprietors, Independent Contractors and Self-Employed Individuals

1. All 1099s received by the independent contractor in 2019 or the 2019 individual tax return proving schedule C income.
2. To expedite the process, we recommend having proof of healthcare and retirement benefit costs ready

Note: Additional Treasury/SBA guidance may be provided soon.

Calculation Recommendations and Other Clarifications

1. For the calculation of Average Monthly Payroll cost, we recommend that payroll providers and CPAs use Gross Payroll based on 2019 data. Neither the CARES Act nor the recent guidance instructs the PPP applicant to exclude federal withholding and employee and employer FICA for the 2019 period. The Average Monthly Payroll cost includes Gross Payroll and the other defined PPP payroll cost elements such as health care, etc.
2. When determining which portions to exclude for payroll costs over \$100,000, 13 CFR Part 120 clarified in item 2g(i) (page 11) that only salary over \$100,000 is excluded, not healthcare or retirement benefits
3. 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 120, issued by the SBA on April 2nd, item 2t (page 17)
4. The loan forgiveness component of the program can be addressed at a later date as additional guidance is received. However, our position is that Gross Payroll as described in Item 1 should be used as a component of loan forgiveness calculation and we are stating this position with policymakers.

In addition to the AICPA recommendations, the institute has a [resource page](#) to assist CPA firms on PPP issues.

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