How business owners with PPP loans should restructure their payroll so they don't have to give a single cent back to the government

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Businesses now have more time to use the funds and rehire workers, making more recipients eligible for forgiveness.
Reuters/Joshua Roberts

- The PPP Flexibility Act was signed into law last week, giving small businesses more flexibility under the $670 billion Paycheck Protection Program.
- The new law offers major fixes in three areas that hampered the effectiveness of the program: timing, allocation, and capacity.
- Current borrowers may want to rethink their PPP spending allocations strategy, and others who were waiting on the sidelines may consider applying before June 30..

President Trump signed the PPP Flexibility Act last week, giving small businesses more flexibility in how they can qualify to have their loans forgiven under the federal government's $670 billion Paycheck Protection Program.

After an initially chaotic launch marked by technological glitches and confusion among banks and borrowers alike, the program has doled out more than $510 billion to more than 4.5 million borrowers.

Most importantly, the new law extends the time businesses have to use loan funds from eight weeks to 24 weeks, and reduces the amount that businesses are required to spend on payroll costs from 75% to 60%.

It also extends the time businesses have to rehire workers, use the funds to pay them, and qualify for loan forgiveness from June 30 to December 31. And the law is more flexible for employers who cannot return to full pre-pandemic payroll, since many businesses are currently shut down or operating under capacity.

The changes may encourage current borrowers to rethink their PPP spending allocations strategy. Others who may have elected not to apply may reconsider, since there is still roughly $150 billion available to be claimed before applications close on June 30.

Rethink your rehiring and reopening timeline

The main problem with the original version of the PPP was that it didn't give borrowers enough time to spend the money effectively.

One business owner told Michigan Public Radio that the Flex Act was too little, too late, saying that his loans had largely been used up paying his staff "to do nothing."

"We didn't really get to take advantage of it at all," said Jason King is the CEO of Outdoor Adventures, a chain of RV and camping resorts. "It's like taking money that would have otherwise have flowed through unemployment and flowing it through the business."

With the PPP Flexibility Act, businesses now have a 24-week window before December 31, 2020, as opposed to the eight-week period before June 30, 2020. This eases the pressure on many businesses to reopen quickly, allowing them to take their time and be more safe and strategic.

The new rules also extend to five years the repayment timeline for loans issued after June 5, 2020. Those who don't qualify for forgiveness now have five years to repay the funds, versus the original two years, reducing their monthly payments by spreading them out over a longer timeframe.

Adjust the share of PPP money you're spending on payroll

PPP funds were meant to cover payroll costs, and the original forgiveness requirements said businesses must use 75% of their funds to keep or rehire workers.

But large and small businesses alike have also had a tough time keeping up with other expenses like mortgages, rent, and utilities. Thanks the new rules, businesses now only have to use 60% of funds on payroll, leaving 40% for other necessities.

The SBA also clarified in a statement that it would honor "partial forgiveness" for borrowers who fall short of the 60% payroll allocation. This means that if businesses spend less than 60% of their loan on payroll, they'll only have to pay back a prorated amount.

Some businesses who were offering bonuses to use up their loans may want to re-consider their compensation strategies to make the funds last.

Document official reopening guidelines for your industry

The PPP Flexibility Act also recognizes that some businesses will not be able to return to full capacity any time soon, and offers an exemption for borrowers who can provide a good-faith certification that they cannot resume normal operations due to COVID-19.

If a worker is unavailable for you to re-hire or replace, or if safety guidance for your industry means you cannot safely maintain a full staff, you will not be penalized when applying for forgiveness.

The PPP still comes up short, so get organized for the next program

Microbusiness consultant DeVan Curry told Business Insider in an email that while the Flex Act does improve some glaring problems with the PPP, the program still leaves much to be desired. It should offer more technical assistance to help borrowers spend strategically and prepare for future economic challenges down the road, he said.

He also argued that borrowers should be allowed to qualify for more money, especially if they have restructured or can show a clear plan for how they would use it.

And finally, the program still lacks provisions for businesses that have been hit the hardest during the pandemic, like restaurants, salons, and dentists.

"All of these industries were at ground zero when the pandemic hit with immediate cash requirements for their business spaces, payroll, and other operating expenses," he said. "Many have yet to open back up and most are struggling to financially recover both personally and in their business."

Rana Shanawani of the Women's Center for Entrepreneurship agrees that another round of funding is needed, and advises business to get their paperwork in order now. That means getting a payroll company if you can or signing up for a payroll software like QuickBooks or Gusto. For businesses that don't have either, their only path to getting PPP this time around is completing a 2019 tax return, which many have delayed.

"The payroll processing stuff, that will help them for the next pandemic," she said. "The tax returns will definitely help them for this current wave that we're going through right now."