



Andrew Johnson Bank



Clarification on Pro-Rating Compensation Cap upon Early Forgiveness Application

If a borrower applies for forgiveness early, for example after 16 weeks, do they need to pro-rate the non-owner employee compensation cap amount (\$100,000 annually, \$46,154 for 24 weeks) for the shorter period?

Our initial interpretation on this, along with many other CPA firms and the AICPA, was that the SBA has made it clear that the covered period is either 8 weeks or 24 weeks. Therefore the cap amount if electing 24 weeks, but applying earlier, should not change from \$46,154.

However, yesterday we received confirmation from the Treasury through discussion with the AICPA, that their interpretation differs and that the cap amount should be pro-rated for the shorter period. If a borrower elects a 24 week covered period, but applies for forgiveness after 16 weeks, the non-owner employee compensation cap would be $\$100,000/52 \text{ weeks} \times 16 \text{ weeks} = \$30,769$.

Operationally, we believe this is going to represent some challenges in the review process as it won't always be clear how many weeks the borrower has selected to use when applying early for forgiveness.

There is no published guidance on this currently and we are unaware if the SBA/Treasury is planning on putting out any guidance. We will keep you updated as we get more information.