



American Institute of Certified Professional Accountants  
1455 Pennsylvania Avenue NW  
Washington, DC 20004-1081

**WRITTEN TESTIMONY OF LISA SIMPSON  
ON BEHALF OF THE  
AMERICAN INSTITUTE OF CPAS**

**BEFORE  
THE COMMITTEE ON SMALL BUSINESS  
UNITED STATES HOUSE OF REPRESENTATIVES**

**HEARING ON  
“THE NEXT STEPS FOR THE PAYCHECK PROTECTION PROGRAM”**

**MARCH 10, 2021**

## **INTRODUCTION**

Chairwoman Velázquez, Ranking Member Luetkemeyer, and Members of the House Committee on Small Business, thank you for the opportunity to talk about the Paycheck Protection Program (PPP) on behalf of the American Institute of CPAs (AICPA). My name is Lisa Simpson and I am the Vice President of Firm Services at the AICPA. In that role, I have worked closely with thousands of CPAs who are assisting their small business and not-for-profit clients navigate the PPP since the program launched last April. We applaud the legislative leadership that created the program, and the efforts of the SBA and Treasury who quickly stood up PPP to provide much needed relief when the pandemic hit. I appreciate the leadership in Congress, the SBA and Treasury who want to work in partnership to resolve issues and improve the operational challenges of this historic program to ensure it reaches as many small businesses and not-for-profit organizations as possible. In my testimony today, I will explain how the accounting profession is helping PPP borrowers, review major PPP challenges, and explain why program challenges and related issues mean Congress should extend the program application period by at least 60 days.

## **THE ACCOUNTING PROFESSION IS HELPING PPP BORROWERS**

CPAs serve as the trusted advisor to small businesses in many ways. Many small organizations don't have professional finance and accounting staff in-house, so CPAs perform many vital functions including payroll processing, tax filings, paying bills, accounting, financial statement preparation, budgeting, cash flow forecasting and more. When the pandemic hit and many businesses were shuttered, small business owners turned to their CPAs for help figuring out how

to pay employees, pay the rent, keep the lights on and not lose all of their investment so that when the crisis ended, the business could be in the best position possible to restart.

PPP became a vital lifeline and the accounting profession stepped up to help. To support CPAs and small business owners, the AICPA developed free resources to assist with the complexities of the program. Designed with an eye toward the small business owner who doesn't spend their day in the intricacies of payroll, tax compliance and spreadsheets, the AICPA created free calculators to help ensure businesses and non-profits could accurately calculate the amount of a PPP loan they were eligible for, checklists so borrowers and their CPAs could provide required documentation, loan forgiveness amount calculators and other resources on a dedicated webpage that is open to the public.

The AICPA has engaged with an ecosystem of partners including the SBA, Treasury, Congress, lenders and payroll providers to bring light to areas where additional guidance was needed, or where a common understanding could be developed. For example, we spearheaded a small business funding coalition comprised of more than 30 payroll and lending organizations to provide SBA and Treasury with insights directly from small businesses and those who serve them. Driving a common understanding of the complex areas of the program led to the launch of regular town halls that have grown to include, on average, 9,000 participants. Through these town halls AICPA has been hearing regularly over the past year from hundreds of CPAs who continue to work diligently to help small business owners with this and the previous round of PPP. We created a program pairing CPAs, all volunteering their time, with SBA representatives and Members of

Congress to answer constituent questions about PPP, EIDL, and related tax issues. Finally, throughout the pandemic the AICPA has had regular, ongoing dialogue with Treasury and the SBA to share insights from CPAs and their small business clients, to discuss ways to address PPP implementation challenges, and share ideas for driving business recovery and economic stability.

### **MAJOR PPP CHALLENGES: ERROR CODES, RESOLUTION PROCESS, AND ADMINISTRATION CHANGES**

When PPP reopened in 2021, the SBA included new processes designed to deter fraud, waste and abuse in the program by instituting front-end compliance checks. The AICPA supports the goal of protecting taxpayer assets by taking reasonable steps to limit the risks of fraud in the program. The applications of many thousands of small businesses (estimated at 20 - 25%) have been subjected to significant challenges in being accepted into the SBA's E-Tran system. These challenges have occurred for both First Draw and Second Draw applications due to validation errors that are difficult to decipher and resolve because they occur in the application programming interface (API) between a lender's platform and the SBA's platform. Because this occurs in a digital workflow, many lenders have been unable to determine the cause of a decline status at this stage and borrowers can be caught in limbo for weeks with no way to move beyond the first step in the application process.

If a borrower is able to make it through the digital transmission into the SBA, their application is run through databases that could result in up to 65 error codes. These error codes, many of which are ultimately found to be incorrect, can result in substantial delays (2-6 weeks) for resolution.

Error code examples include:

- An application can be flagged if a database indicates that an owner has a criminal record that makes the borrower ineligible, requiring the lender to connect with the borrower to obtain affirmation that there is no criminal record or to obtain information that the criminal record is not of a nature that makes the borrower ineligible.
- An application can be flagged if a database indicates the business is inactive according to Secretary of State filings or public records. This flag can be tripped if a borrower operates as a DBA, is not current with Secretary of State filings, doesn't have a business license, or other common issues that impact the smallest of businesses on a regular basis.
- An application can be flagged if a borrower uses a social security number on their sole proprietor Schedule C income tax filing instead of a tax ID number. This can disproportionately impact the smallest borrowers.

CPAs supporting small businesses through the application process are encountering hundreds of examples of how false error codes tied to validation checks are delaying critical help for small businesses.

As you know, the Biden-Harris Administration announced changes February 22, 2021, that provided a dedicated 14-day window intended to prioritize PPP loan application processing for businesses with fewer than 20 employees; changed the loan amount calculation for many small business owners who operate as sole proprietors, independent contractors or self-employed

individuals and file their business income on IRS Form 1040 Schedule C; and expanded eligibility to additional borrowers with certain criminal records or are behind on certain student loan debt. We applaud the efforts of the Administration to help those small and under-served businesses most in need. However, the forms and guidance needed to implement some of the changes were not made available until March 3, 2021. Lenders who rely on an API to integrate into the SBA's system need time (at least one week) to make changes, further delaying the date these smallest borrowers will be able to begin their journey through the SBA E-Tran system. With an impending March 31, 2021 deadline for the PPP, there is very little time for small borrowers to determine their loan amount eligibility, file an application and resolve any potential error codes and hold codes generated by the current system – all the while operating their business in the midst of local stay-at-home orders, ongoing supply chain issues and customers' pandemic-related needs.

As mentioned, the loan amount calculation for business owners using IRS Form 1040 Schedule C was modified to allow for an increased PPP loan. This change is very beneficial to the smallest business owners who are relying on PPP funds to continue their operations. However, because this change is not applied retroactively, hundreds of thousands of borrowers are not able to take advantage of this much needed relief because they had filed using the previous loan amount formula. This results in inequitable treatment of borrowers who may be running the same type of business in the same neighborhood, but one borrower, simply due to timing, receives a substantially higher PPP loan. CPAs and small business owners have provided examples of relief that could have been 50-60% more if they were able to retroactively adjust the amount of PPP loans for this new guidance.

## **COMPOUNDING PPP CHALLENGES: INTERACTION WITH UNIQUELY COMPLEX TAX SEASON**

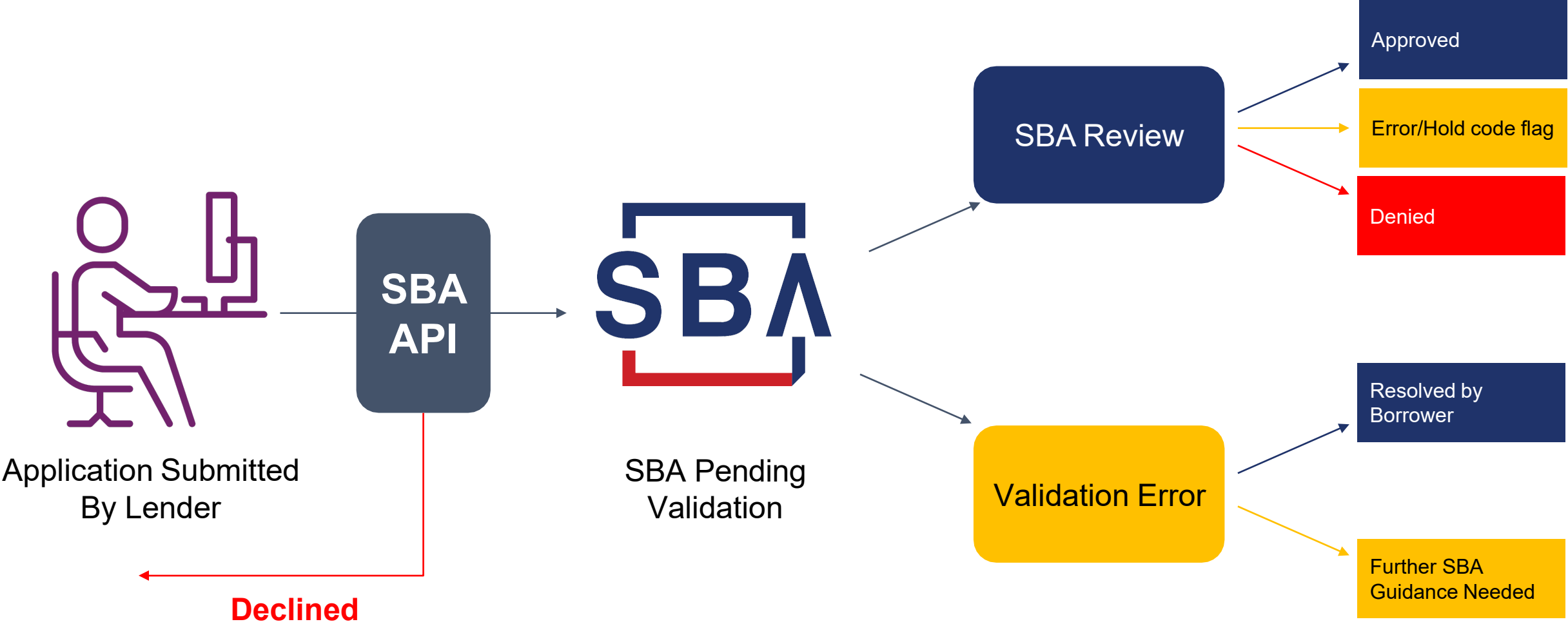
Small business owners and not-for-profit organizations rely on CPAs to help navigate the complexity and confusion surrounding PPP. During this time where business owners have urgent need for counsel and assistance, CPAs are faced with multiple deadlines and increased complexity. As an example, CPAs are assisting clients in the analysis of the interplay between PPP and the Employee Retention Credit (ERC) to ensure compliance with both programs. This is a complex issue and IRS guidance is still needed in some areas. Compounding that complexity is that recent IRS guidance on March 1 for employers claiming the ERC for 2020 was issued after the filing deadline for 2020 payroll tax returns. CPAs immediately realized that many borrowers will now need to file amended payroll tax returns to access the business relief afforded to them by the ERC. Many CPAs find themselves in a situation where they are learning about new IRS ERC guidance, adapting to changes in PPP guidance, assisting clients with the operational challenges of applying for PPP and working in another COVID-impacted tax season. A small firm headquartered in Brooklyn, NY and who supports many clients in the Chairwoman Velazquez's district, has been helping "mom and pop" clients apply for PPP since the program began. He told us that, compared to this time last year, his firm is 500 tax returns behind— and there are still hundreds of eligible Schedule C clients he could potentially help secure PPP loans, but time is running out. Eligible organizations, particularly small and underserved businesses, and their advisors simply need more time to prepare PPP applications for submission. The AICPA has also urged the IRS to delay the April 15 filing and payment deadline to June 15, but to avoid adding to existing system complexity, we strongly recommend that any extended PPP deadline come before a new tax deadline.

## **CONCLUSION**

The CPA profession has a substantial role in helping small businesses and not-for-profits obtain the much-needed relief afforded by the PPP. There are significant operational problems within the PPP process that are resulting in urgent challenges and significant complexity for many small business borrowers who are trying to enter into the SBA system, and delays in processing once in the system. An extension of the PPP application deadline for at least 60 days after March 31, 2021 will provide an opportunity for the SBA to address its technical issues, provide critical guidance, and work with lenders and borrowers so that small businesses can navigate the application process and receive a loan. While the rollout of this round of PPP has not been as streamlined and efficient as many had hoped, the AICPA recognizes and appreciates the leadership of Congress, and the efforts of the SBA and Treasury to engage with borrowers, lenders, CPAs, payroll processors and others in this public-private effort, to provide relief to the country's small business owners. The accounting profession is committed to maintaining open dialogue with Congress, SBA, Treasury and lenders to help create small-business solutions and drive business and economic recovery.



# PPP Application Journey After SBA Submission



Source: CPA.com and Biz2Credit

# Further Understanding Error Code Phases

- There are multiple phases of SBA validation, compliance checks and decision logic. Three types of error codes can be reported during these different phases. Understanding when an error code is occurring is the first key to understanding what action can be taken to resolve.

