

# Unpacking PPP Forgiveness 2.0

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Please post questions in the Q/A only



A recording of this webinar and slides will be posted shortly on our community site  
<https://realtime.inc.com/>



Later in the day we will email a copy to participants

Let's Get Going



Founder and CEO of Multifunding



Inc columnist – on business lending issues



Featured in WSJ, New York Times, Fox amongst others



Advised the White House, Federal Reserve and Treasury market on business credit markers



Author of The Growth Dilemma



EO – Board Member - Philadelphia

# About Ami Kassar

We are in an unprecedented time in history and the information available to us is changing rapidly. Please refer to our most current presentation for education.

Information provided is based upon our best judgement about what we know at this time. However, key questions remain about how to implement this program.

MultiFunding LLC does not accept any liability as it relates to the timeliness or content of the information we are sharing today or may share in the future (and we are under no legal duty to update any such information or recommendations)

We encourage you to check in with your attorneys , CPAs and financial advisors for additional insights

## Disclaimers

## Some Context

The earliest forgiveness application will be accepted 56 days after your PPP was dispersed.

We still expect there to be further guidance and changes.

We will provide updated "Aminars" as necessary when information changes.



To provide you with two months of forgivable payroll expense, assuming you keep your people employed during the required time.



To provide you with forgivable rent, utilities, and interest during the time – assuming these expenses do not exceed 25% of your total forgiveness.

## The Intent of the PPP

## How Forgiveness will work

You will apply at your PPP lender

The lender has 60 days to review your application and submit to the SBA

The SBA has up to 90 days to approve / deny the request and there will be audits

# EIDL Advances

- If you received an advance, this amount will be reduced from your forgiveness amount



# Framework to Consider

- When you applied, you should have gotten 10 weeks of your eligible payroll amount.
- You are eligible for 8 weeks of forgiveness.
- If you did not deviate from your payroll at all, you have 2 weeks of extra surplus – or 20% to apply to rent, utilities, and interest on your building.



# Looking at it through numbers

- Approved for a \$100,000 PPP covering 10 weeks of allowable payroll expense.
- Spent \$80,000 on 8 weeks of payroll during the allowable 8-week period.
- You have up to \$20,000 left to spend on rent / utilities / interest.
  - If you spent less than \$15,000 in these categories, you will have a small balance due on your loan.
  - If you spent more than \$20,000 in these categories, you will have the \$20,000 and your entire PPP forgiven.

<b>PPP loan amount 2.5 x payroll</b>	<b>\$100,000</b>
Amount Spent on Payroll	\$80,000
Amount Spent on R U I	\$15,000
Total Forgiveness Ask	\$95,000
EIDL Advance	\$10,000
Loan Balance	\$15,000

## Example One

PPP loan amount 2.5 x payroll	\$100,000
Amount Spent on Payroll	\$80,000
Amount Spent on R U I	\$20,000
Total Forgiveness Ask	\$100,000
Loan Balance	\$0

## Example Two



IRRESPECTIVE of whether the money is forgiven, you only agree to use the loan for eligible payroll costs, rent, interest on your mortgage or utilities.



It is imperative that you keep methodical records of your expenses.

Remember  
What You  
Agreed To



Compensation to employees in the form of salary, wages, commissions, or similar compensation;



Cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips)



payment for vacation, parental, family, medical, or sick leave

## Allowable Payroll Costs for Forgiveness



allowance for separation or dismissal; payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums, and retirement;



payment of state and local taxes assessed on compensation of employees;



for an independent contractor or sole proprietor, wages, commissions, income, or net earnings from self-employment, or similar compensation.

## Allowable Payroll Costs for Forgiveness

# Allowable

- Furloughed employees' salary, wages, or commissions during the covered period, are eligible for forgiveness.
- If an employee's total compensation does not exceed \$100,000 on an annualized basis, the employee's hazard pay, and bonuses are eligible for loan forgiveness



# Clarifications

## Owner Partners or Self-Employed Individuals

- Maximum of \$15,385 per individual in total across all businesses.
- Capped at 2019 cash compensation and employer retirement and health care contributions

## Schedule C Filers

- Capped by the amount of their owner compensation replacement, calculated based on 2019 net profit.

## General Partners

- Capped by the amount of their 2019 net earnings from self-employment (reduced by claimed section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235.

# Clarification

- No additional forgiveness is provided for retirement or health insurance contributions for self-employed individuals, including Schedule C filers and general partners, as such expenses are paid out of their net self-employment income.

# What Is Not Included

Any compensation of an employee whose principal place of residence is outside of the United States

The compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary

Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020, including the employee's and employer's share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes, and income taxes required to be withheld from employees; and

Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Pub. L. 116–127).



Option 1 “covered period”: 56 Days  
from when you received your PPP  
disbursement



Option 2 “alternative covered period”:  
56 Days from the date you issued your  
first payroll after the PPP disbursement

Eligible Period



Payroll costs are considered paid on the day that paychecks are distributed, or the Borrower originates an ACH credit transaction.



Payroll costs are considered incurred on the day that the employee's pay is earned.



Payroll costs incurred but not paid during the Borrower's last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness if paid on or before the next regular payroll date.

Otherwise, payroll costs must be paid during the Covered Period (or Alternative Payroll Covered Period).

# Payroll Nuances



For each individual employee, the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000, as prorated for the covered period. Prorated number is \$15,835



Count payroll costs that were both paid and incurred only once. Owners cannot be paid more on a prorated basis than they were in 2019.

## Payroll Nuances

covered mortgage obligations: payments of interest (not including any prepayment or payment of principal) on any business mortgage obligation on real or personal property incurred before February 15, 2020 ("business mortgage interest payments")

covered rent obligations: business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020 ("business rent or lease payments")

covered utility payments: business payments for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020 ("business utility payments").

## Eligible Non-Payroll Costs

# Non-Payroll Costs

- An eligible nonpayroll cost must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period.
- Eligible nonpayroll costs cannot exceed 25% of the total forgiveness amount.
- Count nonpayroll costs that were both paid and incurred only once.
- Advanced interest payments are not covered.



# Example

A borrower's covered period begins on June 1 and ends on July 26. The borrower pays its May and June electricity bill during the covered period and pays its July electricity bill on August 10, which is the next regular billing date.

The borrower may seek loan forgiveness for its May and June electricity bills, because they were paid during the covered period.

In addition, the borrower may seek loan forgiveness for the portion of its July electricity bill through July 26 (the end of the covered period), because it was incurred during the covered period and paid on the next regular billing date.

## The dollar amount for which forgiveness is requested:

- was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
- includes all applicable reductions due to decreases in the number of full-time equivalent employees and salary/hourly wage reductions;
- does not include nonpayroll costs in excess of 25% of the amount requested; and
- does not exceed eight weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.

I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.

# Certifications

# What can reduce your forgiveness



If your average FTE count during the forgiven period is reduced from the comparable prior year period, you selected in your PPP application.



If you reduced your pay of your employees by more than 25%.



In each of these instances you must work through complex calculations to determine how your forgiveness will be impacted. We encourage you to do this with your CPA or advisor.

# Reduction in FTE



If the average number of FTE employees during the covered period or the alternative payroll covered period is less than during the reference period, the total eligible expenses available for forgiveness is reduced proportionally by the percentage reduction in FTE employees.



For example, if a borrower had 10.0 FTE employees during the reference period and this declined to 8.0 FTE employees during the covered period, the percentage of FTE employees declined by 20 percent and thus only 80 percent of otherwise eligible expenses are available for forgiveness.

# Calculating FTE

- Full-time equivalent employee means an employee who works 40 hours or more, on average, each week. The hours of employees who work less than 40 hours are calculated as proportions of a single full-time equivalent employee and aggregated.

# Exemptions for Reductions of FTE

- **Any positions for which the Borrower made a good-faith, written offer to rehire an employee during the Covered Period or the Alternative Payroll Covered Period which was rejected by the employee**
- **The borrower must inform the applicable state unemployment insurance office of such employee's rejected offer of reemployment within 30 days of the employee's rejection of the offer.**

# Exemptions for Reductions of FTE

- Any employees who during the Covered Period or the Alternative Payroll Covered Period
  - (a) were fired for cause,
  - (b) voluntarily resigned, or
  - (c) voluntarily requested and received a reduction of their hours.

# Safe Harbor Exemption

**The Borrower then restored its FTE employee levels by not later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.**



# Reduction in Salaries

- The borrower must reduce the total forgiveness amount by the total dollar amount of the salary or wage reductions that are in excess of 25 percent of base salary or wages between January 1, 2020 and March 31, 2020 (the reference period), subject to exceptions for borrowers who restore reduced wages or salaries (see g. below).
- This reduction calculation is performed on a per employee basis, not in the aggregate.
- To ensure that borrowers are not doubly penalized, the salary/wage reduction applies only to the portion of the decline in employee salary and wages that is *not* attributable to the FTE reduction.

<b>PPP loan amount</b>	<b>\$100,000</b>	<b>2.5 x payroll</b>
<b>Spent on Payroll</b>	<b>\$80,000</b>	<b>exactly as per plan</b>
<b>Spent on R / U / I</b>	<b>\$15,000</b>	<b>15.7% of ask</b>
<b>Total Forgiveness Request</b>	<b>\$95,000</b>	
<b>Forgiveness Granted</b>	<b>\$95,000</b>	
<b>Loan Balance</b>	<b>\$5,000</b>	

## Example One: Low Rent District

<b>PPP loan amount</b>	<b>\$100,000</b>	<b>2.5 x payroll</b>
<b>Spent on Payroll</b>	<b>\$80,000</b>	<b>exactly as per plan</b>
<b>Spent on R U I</b>	<b>\$25,000</b>	
<b>Total Forgiveness Request</b>	<b>\$100,000</b>	<b>cannot exceed PPP loan amount</b>
<b>Forgivness Granted</b>	<b>\$100,000</b>	<b>Allowed \$20K for R U I</b>
<b>Loan Balance</b>	<b>\$0</b>	

# Example Two : High Rent District

## Example Three : Follows Safe Harbor

<b>PPP loan amount</b>	<b>\$100,000</b>	<b>2.5 x payroll</b>
<b>Spent on Payroll</b>	<b>\$60,000</b>	<b>Did not bring everyone back</b>
<b>Spent on Rent / Utilities / Interest</b>	<b>\$15,000</b>	<b>20% of spend</b>
<b>Safe Harbor Adjustments</b>	<b>\$0</b>	<b>Meet requirements by June 30th</b>
<b>Total Forgiveness Request</b>	<b>\$75,000</b>	
<b>Forgiveness Granted</b>	<b>\$75,000</b>	
<b>Loan Balance</b>	<b>\$25,000</b>	

<b>PPP loan amount</b>	<b>\$100,000</b>	<b>2.5 payroll</b>
Spent on Payroll	\$60,000	Did not bring everyone back
Spent on Rent / Utilities / Interest	\$15,000	20% of spend
Safe Harbor Adjustments	-\$18,750	Based on reductions
<b>Total Forgiveness Request</b>	<b>\$56,250</b>	
<b>Forgiveness Granted</b>	<b>\$56,250</b>	
<b>Loan Balance</b>	<b>\$43,750</b>	

Example Four:  
Doing It Their  
Way

# Documents You Will Need

# Required Payroll Documents

- Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period consisting of each of the following:
- Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
- Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
  - Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
  - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount (PPP Schedule A, lines (6) and (7)).



FTE: Documentation showing (at the election of the Borrower):



the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019;



the average number of FTE employees on payroll per month employed by the Borrower between January 1, 2020 and February 29, 2020; or



in the case of a seasonal employer, the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve- week period between May 1, 2019 and September 15, 2019.

## Required FTE Documents



Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.

Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.

Business utility payments: Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.

## Required Non-Payroll Documentation

# Documents You Must Keep But Not Submit

- PPP Schedule A Worksheet or its equivalent and the following:
- Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
- Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.
- Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule.
- Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor”

# Follow Up Resources

- MultiFunding is setting a group of CPA partners to assist business owners through the PPP forgiveness process. For more information please reach out to [ami@multifunding.com](mailto:ami@multifunding.com)
- This Ainar will be emailed to you and posted on our community site.
- Additional Ainar's will be announced as significant new information becomes available.