

SBA INTERIM GUIDANCE - PPP FOR SELF-EMPLOYED INDIVIDUALS – QUICK REFERENCE

In General

The SBA has issued additional guidance on the application of the CARES Act Paycheck Protection Program for self-employed individuals (SEIs) reporting income on Form 1040 Schedule C.¹ Such SEIs will base their loan amounts on their net income reported on Line 31 of their 2019 Sch C, and must provide a 2019 Sch C even if their 2019 return has not been finalized.

Details

General Eligibility

- Self Employed Individuals are eligible for a PPP loan if they:
 - o Were in operation on February 15, 2020²;
 - o Have self-employment income (e.g. an independent contractor or sole proprietor);
 - o Have a principal place of residence in the United States; and,
 - o Have filed or will file a 2019 Form 1040 Schedule C.³

Calculation of Maximum Loan

- SEIs *with no employees* calculate their loan as follows:
 - o Take Net Income, up to \$100,000, reported on 2019 Sch C Line 31⁴;
 - o Divide by 12 and multiply by 2.5;
- SEIs *with employees* calculate as follows:
 - o Take Net Income, up to \$100,000, on 2019 Sch C Line 31⁵; plus
 - o 2019 Taxable Medicare gross wages and tips paid to employees; plus
 - o Pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages; less
 - o Amounts paid to an individual employee in excess of \$100,000 annualized; less
 - o Amounts paid to non-US resident employees; plus
 - o 2019 employer health insurance contributions, retirement contributions, and SUTA tax;
 - o Divide the above total by 12 and multiply by 2.5.
- All SEIs should also add in any outstanding EIDL proceeds (less amounts advanced) they wish to refinance under the PPP.

¹ Please see the CARES Act Sec. 1102 Quick Reference for general guidance on the PPP loan applicable to all individuals and employers.

² Additional guidance will be issued for SEIs who were not in operation during 2019.

³ SEIs who have not filed their 2019 return will still need to complete their 2019 Sch C to apply for the loan. Expenses incurred during 2020 are not considered for purposes of the loan application.

⁴ If this amount is zero or negative, the SEI is not eligible for the PPP.

⁵ If this amount is zero or negative, the SEI uses zero.

Use of PPP Loan Proceeds

- SEIs who receive PPP loans can use the funds as follows:
 - o Owner Compensation Replacement based on 2019 net profit;
 - This will generally be 8/52 of the amount on Sch C Line 31
 - o Employee payroll costs (as defined by the PPP)⁶;
 - o Payments for business mortgage interest, rent, or utilities.⁷
 - E.g. interest on an auto loan for a vehicle used in your business, rent on a warehouse used to store business equipment, and gas used while driving a business vehicle.
 - o Interest payments on any other debt obligations incurred before February 15, 2020.⁸
 - o Refinancing an EIDL loan made between 1/31/20 and 4/3/20.
- At least 75% of the loan proceeds must be used for payroll costs (including owner compensation), but there's some ambiguity around how the remaining 25% can be used.

Amounts Eligible for Forgiveness

- The amount of loan forgiveness can be up to the full principal of the loan plus any accrued interest and is based on the sum of the following amounts spent over the eight-week covered period following loan disbursement:
 - o Payroll costs including salary, wages, and tips, up to \$100,000 of annualized pay per employee (for eight weeks, a maximum of \$15,385 per individual), plus
 - covered benefits for employees (but not owners), including health care expenses, retirement contributions, and SUTA taxes;
 - o Owner compensation limited to eight weeks' worth (8/52) of 2019 net profit; and
 - o Business mortgage, rent, or utilities payments to the extent they are deductible on Schedule C.
- At least 75% of the amount forgiven must be attributable to payroll costs (including owner compensation).

Documentation for Loan Application and Forgiveness

- SEIs applying for a PPP loan must submit the following:
 - o 2019 Form 1040 Sch C (will also be used to determine owner comp forgiveness);
 - o 2019 Forms 1099-MISC received or other evidence of self-employment income;
 - o Forms 941 or equivalent payroll processor information, quarterly SUTA forms, and evidence of retirement or health insurance contributions for the SEI's employees (if applicable);
- SEIs applying for forgiveness must also submit:
 - o Forms 941 or equivalent, SUTA records, and retirement or health insurance contributions for the 8-week covered period;⁹
 - o Evidence of business mortgage interest, rent, and utility payments.

⁶ See the Cares Act Sec. 1102 Quick Reference for a definition of payroll costs.

⁷ Such expenses must have been claimed as a deduction on Sch C in order for them to be a permissible use.

⁸ Such amounts are not eligible for forgiveness.

⁹ This interim guidance does not explicitly address the FTE calculation for Sch C filers.