

» PPP Loan Eligibility

Individuals with self-employment income who file a Form 1040, Schedule C¹ are eligible for a PPP loan if:

- (i) you were in operation on February 15, 2020;
- (ii) you are an individual with self-employment income (such as an independent contractor or a sole proprietor, but not if you are a partner in a partnership);
- (iii) your principal place of residence is in the United States; and
- (iv) you **filed or will file** a Form 1040 Schedule C for 2019.

¹If you are a self-employed farmer, you will use Schedule F and Line 34.

» Calculating Maximum PPP Loan Amount

How you calculate your maximum loan amount depends upon whether or not you employ other individuals.

If you have no employees, the following methodology should be used to calculate your maximum loan amount:

Step 1: Find your 2019 IRS Form 1040 Schedule C line 31 net profit amount (if you have not yet filed a 2019 return, fill it out and compute the value). If this amount is over \$100,000, reduce it to \$100,000. If this amount is zero or less, you are not eligible for a PPP loan.

Step 2: Calculate the average monthly net profit amount (divide the amount from Step 1 by 12).

Step 3: Multiply the average monthly net profit amount from Step 2 by 2.5.

Step 4: Add the outstanding amount of any Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

Regardless of whether you have filed a 2019 tax return with the IRS, you must provide the 2019 Form 1040 Schedule C with your PPP loan application to substantiate the applied-for PPP loan amount and a 2019 IRS Form 1099-MISC detailing nonemployee compensation received (box 7), invoice, bank statement, or book of record that establishes you are self-employed. You must provide a 2020 invoice, bank statement, or book of record to establish you were in operation on or around February 15, 2020.

If you have employees, the following methodology should be used to calculate your maximum loan amount:

Step 1: Compute 2019 payroll by adding the following:

- a. Your 2019 Form 1040 Schedule C line 31 net profit amount (if you have not yet filed a 2019 return, fill it out and compute the value), up to \$100,000 annualized, if this amount is over \$100,000, reduce it to \$100,000, if this amount is less than zero, set this amount at zero;
- b. 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States computed using 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c – column 1) from each quarter plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips; subtract any amounts paid to any individual employee in excess of \$100,000 annualized and any amounts paid to any employee whose principal place of residence is outside the United States; and
- c. 2019 employer health insurance contributions (health insurance component of Form 1040 Schedule C line 14), retirement contributions (Form 1040 Schedule C line 19), and state and local taxes assessed on employee compensation (primarily under state laws commonly referred to as the State Unemployment Tax Act or SUTA from state quarterly wage reporting forms).

» Calculating Maximum PPP Loan Amount — *continued*

Step 2: Calculate the average monthly amount (divide the amount from Step 1 by 12).

Step 3: Multiply the average monthly amount from Step 2 by 2.5.

Step 4: Add the outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

You must supply your 2019 Form 1040 Schedule C, Form 941 (or other tax forms or equivalent payroll processor records containing similar information) and state quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or equivalent payroll processor records, along with evidence of any retirement and health insurance contributions, if applicable. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation on February 15, 2020.

» Use of PPP Loan Proceeds

The guidelines permit the proceeds of a PPP loan to be used for the following expenses. *Note that this is different from amounts that are forgivable for sole proprietors/self-employed individuals.*

- ✓ Owner compensation replacement, calculated based on 2019 net profit (Schedule C, Line 31 of 2019 Form 1040).
- ✓ Employee payroll costs (as defined in the First PPP Interim Final Rule) for employees whose principal place of residence is in the United States, if you have employees. At least 60% of the forgivable amount must be payroll costs if you have employees.
- ✓ Mortgage interest payments (but not mortgage prepayments or principal payments) on any **business** mortgage obligation on real or personal property that you have claimed or are entitled to claim as a deduction for such expense on your 2019 Form 1040 Schedule C (e.g., the interest on your mortgage for the warehouse you purchased to store business equipment or the interest on an auto loan for a vehicle you use to perform your business).
- ✓ Business rent payments that you have claimed or are entitled to claim as a deduction for such expense on your 2019 Form 1040 Schedule C (e.g., the warehouse where you store business equipment or the vehicle you use to perform your business).
- ✓ Business utility payments that you have claimed or are entitled to claim as a deduction for such expense on your 2019 Form 1040 Schedule C (e.g., the cost of electricity in the warehouse you rent or gas you use driving your business vehicle).
- ✓ Interest payments on any other debt obligations that were incurred before February 15, 2020 (such amounts are not eligible for PPP loan forgiveness).
- ✓ Refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020 (maturity will be reset to PPP's maturity). If you received an SBA EIDL loan from January 31, 2020 through April 3, 2020, you can apply for a PPP loan. If your EIDL loan was not used for payroll costs, it does not affect your eligibility for a PPP loan. If your EIDL loan was used for payroll costs, your PPP loan must be used to refinance your EIDL loan. Proceeds from any advance up to \$10,000 on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan.

» Forgiveness Process, Documentation and Eligible Amount

You may apply for forgiveness with your lender beginning at any time after you have used all of the loan proceeds for which you are requesting forgiveness, and ending no later than 10 months after the last day of the covered period².

The following documentation must be submitted to your lender for forgiveness, along with any other documentation required pursuant to the instructions to the relevant SBA Forgiveness Application Form:

- ✓ All PPP borrowers must submit SBA PPP Loan Forgiveness Application Form 3508 Revised June 16, 2020 (including certifications and PPP Schedule A), or Form 3508EZ (including certifications).
- ✓ 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, including your IRS Form 941 and state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported.
- ✓ Payment receipts, cancelled checks or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that you included in the forgiveness amount.
- ✓ Documentation showing the average number of full-time equivalent employees on payroll employed by you on January 1, 2020 and at the end of the covered period.
- ✓ Evidence of business rent, business mortgage interest payments on real or personal property, or business utility payments during the covered period if you used loan proceeds for those purposes, as well as documentation verifying the existence of these services prior to February 15, 2020. This could include receipts, cancelled checks, or account statements.

The amount of PPP loan proceeds eligible for forgiveness depends upon whether or not you employ other individuals.

If you have no employees, the payroll cost portion of forgiveness for a 24-week covered period is limited to the **lesser** of: 2.5 months' worth (2.5/12) of 2019 net profit, as reflected on 2019 Form 1040 Schedule C, Line 31, or \$20,833. For an 8-week covered period, this amount is limited to the lesser of: eight weeks' worth (8/52) of 2019 net profit, as reflected on 2019 Form 1040 Schedule C, Line 31, or \$15,385.

In addition, non-payroll costs may be forgiven up to 40% of the total forgivable amount if you incurred any of the following expenses:

- payments of interest on mortgage obligations on real or personal property incurred before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business mortgage payments);
- rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business rent payments); and
- utility payments under service agreements dated before February 15, 2020 to the extent they are deductible on Form 1040 Schedule C (business utility payments).

If you have employees (see page 4)

²The term "covered period" means the period beginning on the date of the origination of a covered loan and ending the earlier of the date that is 24 weeks after such date of origination or December 31, 2020. Nonetheless a borrower that received a covered loan before June 5, 2020, may elect for the covered period applicable to such covered loan to end on the date that is eight weeks after the date of the origination of such covered loan.

» Forgiveness Process, Documentation and Eligible Amount — *continued*

If you have employees, the amount of loan forgiveness can be up to the full principal amount of the loan plus accrued interest. The actual amount of loan forgiveness will depend, in part, on the total amount spent during the covered period² on:

- payroll costs including salary, wages, and tips, up to \$100,000 of annualized pay per employee (a maximum of \$15,385 per individual for an 8-week covered period or a maximum of \$46,154 per individual for a 24-week period), as well as covered benefits for employees (but not owners), including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums);
- owner compensation replacement, calculated based on 2019 net profit (Schedule C, Line 31, 2019 Form 1040), with forgiveness of such amounts limited to 2.5 months' worth (2.5/12) of 2019 net profit or \$20,833, whichever is less (for an 8-week covered period, this limit is eight weeks' worth (8/52) of 2019 net profit or \$15,385, whichever is less), but excluding any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of the Families First Coronavirus Response Act (FFCRA) (Public Law 116-127) or qualified family leave equivalent amount for which a credit is claimed under section 7004 of FFCRA;
- payments of interest on mortgage obligations on real or personal property incurred before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business mortgage payments);
- rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business rent payments); and
- utility payments under service agreements dated before February 15, 2020 to the extent they are deductible on Form 1040 Schedule C (business utility payments).

²The term "covered period" means the period beginning on the date of the origination of a covered loan and ending the earlier of the date that is 24 weeks after such date of origination or December 31, 2020. Nonetheless a borrower that received a covered loan before June 5, 2020, may elect for the covered period applicable to such covered loan to end on the date that is eight weeks after the date of the origination of such covered loan.

The information in this guide is current as of June 24, 2020. As has been the case since the program's inception, there continues to be evolving and new guidance along with rulemaking issued by Treasury and/or SBA that further instructs borrowers and lenders working with PPP applications and forgiveness applications.

The information in this guide is focused on nuances in the PPP program unique to sole proprietors/self-employed individuals. See also WBA Borrower Toolkit, and reference the FAQs and Interim Final Rules issued by Treasury and SBA, as well as instructions provided applicable to all PPP borrowers for the PPP Loan Forgiveness Application SBA Form 3508 or 3508EZ.