

## SELF EMPLOYED INDIVIDUALS

### HOW DO YOU CALCULATE THE LOAN AMOUNT AND WHAT DOCUMENTATION IS REQUIRED?

#### 1. SELF EMPLOYED WITH NO OTHER EMPLOYEES

If the entity has **NO** employees, the following methodology should be used to compute the loan amount:

**Step 1:** Find the 2019 IRS Form 1040 Schedule C line 31 net profit amount (if you have not yet filed a 2019, you **must fill out a 2019 Form 1040 Schedule C** 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 line 31 by 12).

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

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

#### REQUIRED SUPPORTING DOCUMENTS TO BE SUBMITTED WITH THE PPP APPLICATION:

- Regardless of whether or not they have filed a 2019 tax return, the 2019 Form 1040 Schedule C with the PPP loan application it will be needed to substantiate the applied-for PPP loan amount.
- 2019 IRS Form 1099-MISC detailing nonemployee compensation received (box 7).
- Invoice, Bank Statement, or book of record that establishes you are self-employed.
- They must provide a 2020 invoice, bank statement, or book of record to establish you were in operation on or around February 15, 2020.

## **SELF EMPLOYED WITH OTHER EMPLOYEES**

**If the entity HAS employees, the following methodology should be used to compute the loan amount:**

**Step 1:** Compute 2019 payroll by adding the following:

- a. 2019 Form 1040 Schedule C line 31 net profit amount (if you have not yet filed a 2019 return, you **must fill out a 2019 Form 1040 Schedule C** and compute the value), up to \$100,000 annualized, if this amount is over \$100,000, reduce it to \$100,000.
- b. If this amount is less than zero, set this amount at zero.
- c. 2019 gross wages and tips paid to employees whose principal place of residence is in the United States computed using:
  1. 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c- column 1) from each quarter plus any pre-tax.
  2. Employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips.
  3. 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.
  4. 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).

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

## **REQUIRED SUPPORTING DOCUMENTS TO BE SUBMITTED WITH THE PPP APPLICATION:**

- 2019 Form 1040 Schedule C, Form 941 (or other tax forms or equivalent payroll processor records containing similar information).
- State quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or equivalent payroll processor records.
- 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.

## WHAT ARE THE ACCEPTABLE USES OF THE PPP LOAN FUNDS BY INDIVIDUALS WITH INCOME FROM SELF-EMPLOYMENT WHO FILE A 2019 FORM 1040, SCHEDULE C?

- A. Owner compensation replacement, calculated based on 2019 net profit.
- B. Employee payroll costs for employees whose principal place of residence is in the United States, if you have employees.
- C. Mortgage interest payments (but not mortgage prepayments or principal payments) on any business mortgage obligation on real or personal property (see examples below):
  - The interest on your mortgage for the warehouse you purchased to store business equipment.
  - The interest on an auto loan for a vehicle you use to perform your business).
  - Business rent payments (*e.g.*, the warehouse where you store business equipment or the vehicle you use to perform your business).
  - Business utility payments (*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 of two years).
  - 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.

You must have claimed or be entitled to claim a deduction for such expenses on your 2019 Form 1040 Schedule C for them to be a permissible use during the eight-week period following the first disbursement of the loan (the "covered period").

If you did not claim or are not entitled to claim utilities expenses on your 2019 Form 1040 Schedule C, you cannot use the proceeds for utilities during the covered period.

## LIMITATIONS / RESTRICTIONS ON THE USE OF LOAN PROCEEDS FOR SELF-EMPLOYED INDIVIDUALS WHO FILE A FORM 1040 SCHEDULE C

- A. Uses for which the borrower made expenditures in 2019.
- B. The PPP loan is necessary “to support the ongoing operations” of the borrower.
- C. All Self-Employed individuals will need to rely on their 2019 Form 1040 Schedule C, which provides verifiable documentation on expenses between January 1, 2019 and December 31, 2019.
- D. For individuals with income from self-employment from 2019 for which they have filed or will file a 2019 Form 1040 Schedule C, expenses incurred between January 1, 2020 and February 14, 2020 may not be considered because of the lack of verifiable documentation on expenses in this period.
- E. At least 75 percent of the PPP loan proceeds shall be used for payroll costs.

SBA will issue additional guidance for those individuals with self-employment income who were not in operation in 2019 but who were in operation on February 15, 2020, will file a Form 1040 Schedule C for 2020.

## HOW DO I FILE IF I AM A PARTNERSHIP

If you are a partner in a partnership, you **may not** submit a separate PPP loan application for yourself as a self-employed individual. Instead, the self-employment income of general active partners may be reported as a payroll cost, up to \$100,000 annualized, on a PPP loan application filed by or on behalf of the partnership.

You should be aware that participation in the PPP **may** affect your eligibility for state administered unemployment compensation or unemployment assistance programs, including the programs authorized by Title II, Subtitle A of the CARES Act, or CARES Act Employee Retention Credits.