



**AMGA**

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## Frequently Asked Questions about the PPP Loan Program for Self-Employed Individuals

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### Member Resources

## Overview

On April 15, 2020 the Small Business Administration issued an [Interim Final Rule on Additional Eligibility Criteria and Requirements for Certain Pledges of Loans](#) (IFR) with guidance on the PPP Loan Program for individuals with self-employment income who file a Form 1040, Schedule C.<sup>1</sup> The IFR also addresses eligibility issues for certain business concerns and requirements for certain pledges of PPP loans. This IFR applies to PPP applications submitted through June 30, 2020, or until PPP funds are exhausted. The Frequently Asked Questions below provide an interpretation of the April 15<sup>th</sup> IFR, the CARES Act, the Paycheck Protection Program Flexibility Act, and other interim and final rules to help self-employed individuals understand the PPP loan program, apply for a PPP loan, and achieve maximum forgiveness.

## Frequently Asked Questions

### 1. I have income from self-employment and file a Form 1040, Schedule C. Am I eligible for a PPP Loan?

You are eligible for a PPP loan if:

- You were in operation on February 15, 2020;
- You are an individual with self-employment income (such as an independent contractor or a sole proprietor);
- Your principal place of residence is in the United States; and
- You filed or will file a Form 1040 Schedule C for 2019.

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<sup>1</sup> Use Schedule C (Form 1040) to report income or loss from a business you operated or a profession you practiced as a sole proprietor. An activity qualifies as a business if: 1) Your primary purpose for engaging in the activity is for income or profit. 2) You are involved in the activity with continuity and regularity. See <https://www.irs.gov/forms-pubs/about-schedule-c-form-1040>.

## 2. What if I am in 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, active partners should submit a PPP loan application on behalf of the partnership. In this case, self-employment income of each active partner 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.

## 3. What if I was not in operation in 2019?

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 and will file a Form 1040 Schedule C for 2020.

## 4. How do I calculate the maximum amount I can borrow and what documentation is required?

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).

Documentation: Regardless of whether you have filed a 2019 tax return with the IRS, you must provide:

- A 2019 Form 1040 Schedule C with your PPP loan application to substantiate the applied-for PPP loan amount.
- 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 and 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:

- Your 2019 Form 1040 Schedule C line 31 net profit amount, up to \$100,000 annualized (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 less than zero, set this amount at zero.
- 2019 gross wages and tips paid to your employees whose principal place of residence is in the US, 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.

- 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: 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).

Documentation: You must supply:

- Your 2019 IRS Form 1040 Schedule C.
- 2019 IRS Form 941 (employers quarterly federal tax return) 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.

**5. Can a self-employed individual include payments made to independent contractors when calculating 2019 gross wages and tips paid to employees?**

No. Payments made to independent contractors should not be included in your calculation of 2019 gross wages and tips paid to employees.

**6. How can PPP loans be used by individuals with income from self-employment who file a 2019 Form 1040, Schedule C?**

For borrowers who received a PPP loan prior to June 5, 2020, the proceeds of a PPP loan can be used during either an 8-week covered period or a 24-week covered period (borrower's choice). For borrower's who received a PPP loan after June 5, 2020 the proceeds of a PPP loan will be used during a 24-week covered period. During the covered period, the proceeds of a PPP loan are to be used for:

- Owner compensation replacement in the form of wages, commissions, income, or net earnings from self-employment. See FAQ #8 to learn about the amount of owner compensation that is eligible for forgiveness.
- Employee payroll costs (for employees whose principal place of residence is in the United States) 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; 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.
- Business rent payments, utility payments, and interest payments on mortgages and other debt obligations (but not mortgage prepayments or principal payments). Note, you must have claimed or be entitled to claim a deduction for business rent, utility payments, or mortgage interest

payments 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”).

- 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.

#### **7. Are there any other restrictions on how I can use PPP loan proceeds?**

Yes.

- Funds cannot be used to pay an employee whose principal place of residence is outside the United States.
- At least 60 percent of the PPP loan proceeds must be used for payroll costs.
- For purposes of determining the percentage of use of proceeds for payroll costs (but not for forgiveness purposes), the amount of any refinanced EIDL will be included.
- You cannot use PPP loan funds and EIDL funds for the same purpose at the same time. For example, if you use PPP loan funds for payroll costs in May, you cannot use EIDL funds for payroll costs in May.

#### **8. What amounts are eligible for forgiveness?**

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 be determined by the total amount spent over the covered period on:

- Payroll costs including salary, wages, and tips up to \$100,000 of annualized pay per employee (for eight weeks this would be a maximum

of \$15,385 per individual, and for 24 weeks, a maximum of \$46,154 per individual), which include covered benefits for employees (but not owners) such as:

- Health care expenses
- Retirement contributions
- State taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums)
- Owner compensation replacement, calculated based on 2019 net profit as described in FAQ #4 above, but excluding any qualified sick or family leave amount for which a tax credit is claimed under the Families First Coronavirus Response Act (FFCRA).
  - For borrowers using an 8-week covered period, forgiveness of owner compensation replacement amounts is limited to eight weeks' worth of 2019 net profit, up to a maximum of \$15,385 per individual. To get this amount, start with the 2019 annual net income, divide by 52, and multiply by 8.
  - For borrowers using a 24-week covered period, owner compensation replacement amounts are limited to 2.5 months' worth of 2019 net profit, up to a maximum of \$20,833. To get this amount, start with the 2019 annual net income, divide by 12, and multiply by 2.5.
- 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).
- Business rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C.
- Business utility payments under service agreements dated before February 15, 2020 to the extent they are deductible on Form 1040 Schedule C.



**9. What documentation will I be required to submit to my lender with my request for loan forgiveness?**

To substantiate your request for loan forgiveness, the following will be required:

- The 2019 Form 1040 Schedule C that was provided at the time of the PPP loan application will be used to determine the amount of net profit allocated to the owner over an 8-week or 2.5-month period in 2019, for the purposes of determining the amount of owner compensation replacement that is forgivable during the covered period.
- A certification from a representative of the loan recipient that the documentation presented is true and correct and the amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments.
- 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.

If you have employees, you should also submit:

- 2019 IRS Form 941 (employers quarterly federal tax return).
- State quarterly wage unemployment insurance tax reporting forms or equivalent payroll processor records that best correspond to the covered period.
- Evidence of any retirement and health insurance contributions, if applicable.

**10. The amount of forgiveness of a PPP loan depends on the borrower's costs for payroll, rent, utilities, and mortgage interest over an 8-week or 24-week period. When does that 8-week or 24-week period begin?**

The 8-week or 24-week covered period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the

first disbursement of the loan no later than ten calendar days from the date of loan approval.

### **11. Will acceptance of a PPP loan affect my ability to collect unemployment?**

Yes, you should be aware that participation in the PPP program 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.

### **12. Additional Resources**

[Paycheck Protection Program General Information](#)

[Paycheck Protection Program Borrower Information Sheet](#)

[SBA Frequently Asked Questions on the PPP Loan Program](#)

[U.S. Treasury Interim and Final Rules on the Paycheck Protection Program](#)

[Paycheck Protection Program Flexibility Act of 2020](#)

[AMGA FAQ on PPP Loan Forgiveness](#)

[PPP Loan Forgiveness Application](#)

[PPP Loan Forgiveness Application Instructions](#)

[PPP Loan Forgiveness Application Form EZ](#)

[PPP Loan Forgiveness Application Form EZ Instructions](#)