

## Paycheck Protection Program Clarification for Self-Employed Individuals

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Taxpayers looking for guidance on how the Paycheck Protection Program is available for self-employed individuals have finally been given guidance. The Treasury has released additional notes to the Interim Final Rule to assist and clarify the application and forgiveness aspects of the programs.

Self-employed individuals filing a Form 1040 Schedule C can apply for the program under the following guidance:

1. You were in operation on February 15, 2020
2. You are an individual with self-employed income
3. Your principal place of business was in the United States and
4. You filed or will file a Form 1040 Schedule C in 2019

The Treasury Rule notes that you cannot file a PPP application as a self-employed partner in a partnership. Those partners can file in a partnership and can include up to 100,000 of self-employed income per partner filing such partnership return.

The base loan amount eligible for the program is determined depending upon whether or not the self-employed individual employs other individuals.

1. If you did not employ other individuals, the net profit of the Schedule C on Line 31 is includable up to 100,000 as payroll costs. The average monthly payroll cost is then computed by dividing the amount by 12; and loan amount is then set at 2.5 times that amount. The loan application must include the Schedule C regardless of whether or not you have filed. You also must reduce the loan amount determined by any Economic Injury Disaster Loan made during certain time periods specified in the ruling.
2. If you had employees within your Schedule C business, determine the payroll costs by adding the same computation in 1) above limiting the amount again to 100,000; and add any payroll expense of employees limited to 100,000 plus the fringe benefits of those employees for which the employer paid. Again, compute the average monthly payroll cost by taking the sum of the items and dividing by 12 and then multiplying by 2.5.

Use of funds for the case of a self-employed individual, in these cases, is defined as:

1. Owner compensation replacement – meaning the net profit as computed above to determine the borrowing base
2. Employee payroll costs – if you have employees, within the same meaning as above and in prior ruling releases (gross payroll and fringes paid by the company)
3. Business rent payments
4. Mortgage interest related to property owned by the business
5. Utilities

In determining how to review forgiveness of any loan, the Treasury has determined that owner compensation replacement for individuals with self-employment income is limited to 8/52 worth of 2019 net profit, thus that amount can be considered payroll costs as part of the total forgiveness along with other expenditures like rent, mortgage interest and utilities – for the 8 week period after the loan is funded.

For the details of the Interim Final Rule – please look to this link:

<https://home.treasury.gov/system/files/136/Interim-Final-Rule-Additional-Eligibility-Criteria-and-Requirements-for-Certain-Pledges-of-Loans.pdf>

As always, Spielman Koenigsberg & Parker, LLP is here to assist you with your needs to ensure you qualify and are properly applying for all eligible COVID-19 relief. Contact us for further guidance.