

Payroll Protection Program – Self-Employed Individuals and Independent Contractors

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Starting Friday April 10, self-employed individuals and independent contractors can begin to submit applications for the Payroll Protection Program. This program provides a loan of up to 2.5 times self-employment income and may be forgiven up to 100%, subject to certain requirements. Below are guidelines for the application:

Am I eligible?

You are eligible for a PPP loan if you are an individual who operates as an independent contractor or eligible self-employed individual and you were in operation on February 15, 2020. However, individuals may not receive unemployment and a PPP loan simultaneously.

When should I apply?

The loan program currently has limited funding and is expected to be oversubscribed so we encourage all our clients to start the process immediately. Treasury has advised that funds are on a first come first served basis. The application process ends June 30, 2020.

How do I apply?

It is recommended that you apply through your bank as many banks are only accepting applications from current customers. If your bank is not accepting applications, we can provide you with a loan facilitator that has been approved by the SBA. The following is a link to the application that you will need to submit:

[Application](#)

The application is asking for average monthly payroll. How is this calculated?

The definition of “Payroll Costs” includes net earnings from self-employment, which is the amount reported on Line 31 on Form 1040 Schedule C of your individual tax return and any separately stated 1099-MISC that is subject to self-employment tax not reported on Form 1040 Schedule C. This amount generally includes the gross income derived from any trade or business less deductions allocated to the business. For purposes of the loan calculation, net earnings are capped at \$100,000. Applicants can aggregate “Payroll Costs” using data from the previous 12 months or calendar year 2019 and divide by 12 to arrive at average monthly payroll.

If you operate a self-employed business and employ individuals, then we believe the total “Payroll Costs” should include both your average monthly gross wages of employees plus your net earnings from self-employment, all subject to the \$100,000 limits per individual.

What supporting documentation is required?

The Interim Final Rule states that applicants “must also submit such documentation as is necessary to establish eligibility such as payroll processor records, payroll tax filings, or Form 1099-MISC, or income

and expenses from a sole proprietorship. For borrowers that do not have any such documentation, the borrower must provide other supporting documentation, such as bank records, sufficient to demonstrate the qualifying payroll amount.” It appears that each bank has different requirements and there may be some flexibility on what should be submitted. At a minimum, we would recommend having copies of your 2019 tax return (if filed), an income statement for 2019 or the last 12 months, 1099-MISC for yourself and payroll tax filings if you have employees. If none of these are available, bank records may be sufficient.

How much of the loan will be forgiven?

Generally speaking, for the 8-week period following the date that you received the proceeds, you must spend at least 75% of proceeds on “Payroll Costs” and 25% can constitute other costs such as group health insurance, mortgage interest payments, rent payments, utility payments, interest on other debt incurred before February 15, 2020. To the extent that loan proceeds are not spent in this manner, that portion of the loan will not be forgiven. Treasury has not issued any guidance as to what would be included in the loan forgiveness calculation for self-employed businesses. Until further guidance is provided, we recommend paying yourself 75% of the loan balance over the course of the eight-week period. We also recommend paying bills for the non-payroll costs described above during the 8-week period. If and when additional loan forgiveness guidance is provided, recommendations will be updated.

What are the terms of the loan portion that is not forgiven?

The loan term is 2 years at a 1% interest rate. Payments are deferred for 6 months but interest will accrue during the deferral period. There is no prepayment penalty. No guarantee or collateral is required.

Are there any other loans available to me?

Economic Injury Disaster Loans may be helpful. You can apply for an EIDL loan with the SBA and get a \$10,000 advance in around 3 days. The \$10,000 is a grant. There is no obligation to repay the grant. If you do not get approved for the EIDL, you can keep the \$10,000. A loan up to \$200,000 is approved without a personal guarantee. Borrowers do not have to prove they cannot get credit elsewhere. Loans are limited to \$2 million dollars and rates of 3.75%; and have up to a 30-year term. Payments due on the loan are deferred for one year and no collateral is required if loans are under \$25,000. SBA guidance allows you to apply for a PPP loan in addition to an EIDL, so long as you don't use the funds from each loan for the same expenses. For example, if you decide to apply for a PPP loan and use those funds strictly for payroll, you cannot subsequently use funds from an EIDL for payroll, as well. However, if you apply for an EIDL and PPP, the \$10,000 reduces the loan forgiveness amount. At the time of release, there are reports of major funding issues on EIDL including loans limited to much smaller amounts, and the grant portion of the loan being limited to \$1,000 per employee. That said, we would hope these issues are worked out and the loan program becomes a success.

As always, SKP is here for you during these difficult times, to assist you in taking advantage of any programs that will help your businesses. Please feel free to contact us with any questions.