

## PPP GUIDANCE FOR SCHEDULE C FILERS WITH NO EMPLOYEES

(as of February 23, 2021)

**NOTE:** This guidance is meant for sole proprietors, independent contractors, self-employed individuals, LLCs and other businesses that file their federal business income taxes on **IRS Form 1040 Schedule C** and have no employees (other than the owner).

Paycheck Protection Program (“PPP”) loans are intended to provide forgivable loans to help you during the on-going economic uncertainty caused by COVID-19. There have been several updates to the program. Please see below for our current guidance.

If you have not yet received a PPP loan and you meet eligibility requirements, you may apply for a PPP loan (also called a **1<sup>st</sup> Draw PPP loan**). If you already received a 1<sup>st</sup> Draw PPP loan and you meet additional eligibility requirements, you may apply for a **2<sup>nd</sup> Draw PPP loan**.

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### Am I eligible for a PPP loan (also called a 1<sup>st</sup> Draw PPP loan)?

In general, you are eligible for a PPP loan if all of the following statements are true:

- You were operating on February 15, 2020. (If you operate a seasonal business, you are considered to have been operating on February 15, 2020 if you were operating for any 12-week period between February 15, 2019 and February 15, 2020).
- Current economic uncertainty makes a PPP loan necessary to support your operations.
- You have not already received a PPP loan.
- You have not received a Shuttered Venue Grant.
- You have not permanently closed. (If you have temporarily closed due to the impact of COVID-19, and intend to reopen, you have not permanently closed.)
- You are able to make all of the certifications on SBA Form 2383 (PPP First Draw Loan Application).

### What is my loan amount for a 1<sup>st</sup> Draw PPP loan?

Your 1<sup>st</sup> Draw PPP loan will be equal to 2½ months of your average monthly payroll costs in 2019 or in 2020. **On February 22, 2021, SBA announced a favorable update to its rules on how average monthly payroll costs are calculated for Schedule C filers. SBA guidance on this change is pending, but for 1<sup>st</sup> Draw PPP loans approved following this update, you should plan to calculate your loan amount based on line 7 (gross income) of your Schedule C, as follows:**

- If line 7 is \$0 or less, you are not eligible for a PPP loan.
- If line 7 is over \$100,000, your PPP loan amount is \$20,833.
- If line 7 is between \$1 and \$100,000, divide line 7 by 12 to determine your average monthly payroll costs, then multiply by 2.5. This is your PPP loan amount.
- If you own other businesses, you may only receive up to \$20,833 across all businesses, even if they operate under a separate EIN

### Am I eligible for a second PPP loan (also called a 2<sup>nd</sup> Draw PPP loan)?

In general, you are eligible for a 2<sup>nd</sup> Draw PPP loan if you were eligible for and received a 1<sup>st</sup> Draw PPP loan, you are still facing economic uncertainty due to the impact of COVID-19, and you meet all of the following additional requirements:

- You have used the full amount of your first PPP loan for eligible purposes.
- You have not already received a 2<sup>nd</sup> Draw PPP loan.
- You experienced at least a 25% reduction in “gross receipts” in calendar year 2020, as compared to calendar year 2019. Gross receipts includes all revenue of your business. In general, you will show this reduction by comparing your 2019 Schedule C to your 2020 Schedule C. Since it is unlikely that you will have prepared your 2020 Schedule C yet, SBA does not require you to provide documentation of your reduction now, but you will be required to provide a copy of your filed 2020 Schedule C when you apply for forgiveness. When you file your 2020 Schedule C, if it does not show at least a 25% reduction from your filed 2019 Schedule C, you will have to repay your 2<sup>nd</sup> Draw PPP loan in full. So, before applying for your 2<sup>nd</sup> Draw PPP loan, even if you have not yet prepared your 2020 taxes, you’ll want to review your numbers and make sure you have experienced at least a 25% reduction.

### What is my loan amount for a 2<sup>nd</sup> Draw PPP loan?

For most borrowers, your 2<sup>nd</sup> Draw PPP loan will be equal to 2½ months of your average monthly payroll costs in 2019 or in 2020. **On February 22, 2021, SBA announced a favorable update to its rules on how average monthly payroll costs are calculated for Schedule C filers. SBA guidance on this change is pending, but for 2<sup>nd</sup> Draw PPP loans approved following this update, you should plan to calculate your loan amount based on line 7 (gross income) of your Schedule C, as follows:**

- If line 7 is \$0 or less, you are not eligible for a 2<sup>nd</sup> Draw PPP loan.
- If line 7 is over \$100,000, your 2<sup>nd</sup> Draw PPP loan amount is \$20,833.
- If line 7 is between \$1 and \$100,000, divide line 7 by 12 to determine your average monthly payroll costs, then multiply by 2.5. This is your 2<sup>nd</sup> Draw loan amount.
- If you own other businesses, you may only receive up to \$20,833 across all businesses, even if they operate under a separate EIN.

For borrowers who use NAICS code 72 (accommodation or food services businesses), your 2<sup>nd</sup> Draw PPP loan will be equal to 3½ months of your average monthly payroll costs. **On February 22, 2021, SBA announced a favorable update to its rules on how average monthly payroll costs are calculated for Schedule C filers. SBA guidance on this change is pending, but for 2<sup>nd</sup> Draw PPP loans approved following this update, you should plan to calculate your loan amount based on line 7 (gross income) of your Schedule C, as follows:**

- If line 7 is \$0 or less, you are not eligible for a 2<sup>nd</sup> Draw PPP loan.
- If line 7 is over \$100,000, your 2<sup>nd</sup> Draw PPP loan amount is \$29,167.
- If line 7 is between \$1 and \$100,000, divide line 7 by 12 to determine your average monthly payroll costs, then multiply by 3.5. This is your 2<sup>nd</sup> Draw PPP loan amount.
- If you own other businesses, you may only receive up to \$29,167 across all businesses, even if they operate under a separate EIN.

NAICS codes are used by the federal government to classify your primary business activity. Your NAICS code is the “business activity code” you entered on line B of your most recent filed Schedule C. If your primary business activity is accommodation or food service (e.g., restaurant, caterer, food truck, bar), but you inadvertently left the business activity code blank on your most recent tax return, then alternative documentation, such as permits or licenses unique to these types of businesses and other information, are required.

### **What documentation do I need to provide to apply for a PPP loan?**

To apply for a first PPP loan or a 2<sup>nd</sup> Draw PPP loan, you will need to provide:

- A valid, government-issued Photo ID (e.g., State-issued driver’s license, U.S. Passport, Green Card)
- Documentation of Self-Employment, such as a Form 1099-MISC or 1099-K that you have received, or a business bank account statement, or business invoices combined with proof of payment
- Documentation you were in business on or around February 15, 2020, such as a business bank account statement that covers February 15, 2020, or business invoices combined with proof of payment dated on or around February 15, 2020
- A filed copy of your 2019 Schedule C
- If you choose to base your loan amount on 2020, a filed or draft copy of your 2020 Schedule C. If you provide a draft 2020 Schedule C, you will need to sign and date it, and initial each page. You will provide a copy of your filed 2020 Schedule C at forgiveness.

SBA may require additional documentation when you apply for forgiveness of your PPP loan or 2<sup>nd</sup> Draw PPP loan. For instance, if you provide a draft Schedule C, you will be required to provide the filed copy when you apply for forgiveness. If you are applying for a 2<sup>nd</sup> Draw PPP loan, then at forgiveness you will be required to provide documentation showing you had at least a 25% reduction in gross receipts for 2020, as compared to 2019.

### **How can I use my PPP loan?**

SBA has expanded the ways you can use your PPP loan proceeds. Whether you have a 1<sup>st</sup> Draw PPP loan or a 2<sup>nd</sup> Draw PPP loan, you can use your loan for the following purposes:

- Payroll Costs: to be fully forgiven, you must use at least 60% of your PPP loan on eligible payroll costs. There are no exceptions to this rule.
  - You can use your entire PPP loan for your own payroll. This will be the easiest way to use your loan. (You are not required to write yourself a check to document this use.)
- Non-Payroll Costs: if you do not use all of your PPP loan for your own payroll, you can use up to 40% for the following business expenses, as long as you are entitled to claim a deduction for this type of expense on your Schedule C. You must prorate the expense in the same manner as is required for your Schedule C filing.
  - Interest payments (but not prepayments or principal payments) on any business mortgage obligation on real or personal property that was in place by February 15, 2020.
    - If you lease a portion of your space to tenants, then you may not claim forgiveness for the portion of your mortgage interest covered by your tenants.
    - If your mortgage loan is to a related party (ownership in common), your mortgage interest payments are not eligible for forgiveness.
  - Business rent or lease payments for real or personal property that were in place by February 15, 2020.
    - If you are a home-based business, then when determining the amount of rent payments that are eligible for loan forgiveness, you must prorate payments in the same manner as on your tax filings.
    - If you sublease a portion of your space to tenants, then you may not claim forgiveness for the portion of your rent that is covered by your subtenant.
    - If you share rented space with another business, then when determining the amount that is eligible for loan forgiveness, you must prorate rent payments in the same manner as on your tax filings.
    - If your rent payments are to a related party (ownership in common), you may only request forgiveness for rent payments up to the amount of mortgage interest owed by the related party on the property, proportionally for the amount of the property you rent.
  - Business utility payments for a service for the distribution of electricity, gas, water, transportation, telephone, and internet access that were in place by February 15, 2020.
    - If you have tenants or subtenants, you may not include any amount attributable to the operation of your tenant or subtenant.
    - A “service for the distribution of transportation” refers to transportation utility fees (sometimes known as street maintenance fees or road user fees) assessed by state and local governments. No other transportation-related cost is eligible for loan forgiveness.
  - Covered Operations Expenditures: business software or cloud computing services that facilitate your business operations, product or service delivery, the processing, payment or tracking of payroll expenses, human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records and expenses.
  - Covered Property Damage Costs: costs related to property damage, vandalism or looting due to public disturbances that occurred during 2020 that was not covered by insurance or other compensation.
  - Covered Supplier Costs: expenditures made to a supplier for goods that are essential to your operations at the time the expenditure is made. In most cases, the contract, order, or purchase order must have been in effect before you received your PPP loan funds. With respect to perishable goods, the contract, order or purchase order must have been in effect

either before you received your PPP loan funds, or during the 8-week to 24-week period for use of your PPP loan funds.

- Covered Worker Protection Expenditures: costs to facilitate the adaptation of your operations to comply with federal, state or local requirements or guidance from March 1, 2020 through the end of the COVID–19 national emergency declaration, related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement, including:
  - purchase, maintenance, or renovation of assets that create or expand (i) a drive-through window facility; (ii) an indoor, outdoor, or combined air or air pressure ventilation or filtration system; (iii) a physical barrier such as a sneeze guard; (iv) an expansion of additional indoor, outdoor, or combined business space; (v) an onsite or offsite health screening capability; or (vi) other assets relating to the compliance with COVID-19 requirements or guidance as determined by SBA.
  - purchase of (i) covered materials described in section 328.103(a) of title 44, Code of Federal Regulations, or any successor regulation; (ii) particulate filtering facepiece respirators approved by the National Institute for Occupational Safety and Health, including those approved only for emergency use authorization; or (iii) other kinds of personal protective equipment, as determined by SBA.
  - Covered Worker Protection Expenditures do not include expenditures for residential real property or intangible property.

No other uses are forgivable. Please see our PPP FAQ in the Tools & Resources section of our [website](#) for more information on eligible uses.

### What are the forgiveness requirements for my PPP loan?

In general, if you follow the guidance above on use of your PPP loan, you should be eligible for full forgiveness. When you apply for forgiveness, you must provide us with a copies of your filed 2019 Schedule C and your filed 2020 Schedule C.

### How do I document 25% reduction in gross receipts to be eligible for a 2<sup>nd</sup> Draw PPP loan?

To make it easier for you to apply, SBA is not requiring you to submit document of your reduction in “gross receipts” when you apply for your 2<sup>nd</sup> Draw PPP. You will be required to provide us with documentation when you are ready to seek forgiveness of your loan, or upon SBA request. SBA randomly reviews PPP loans from every lender and may conduct a review at any time, before or after the forgiveness process, for up to 4 years. SBA will not forgive your PPP loan if you cannot provide documentation of the required reduction at forgiveness. In that case, you would have to pay off the full amount of your 2<sup>nd</sup> Draw PPP loan over the 5-year term of the loan.

Before you apply, you should review your financial statements and get comfortable that you have experienced at least a 25% reduction and will be able to document that when it is time to apply for forgiveness. Here are some tips on how to do that:

- If you were in business for all of 2019: You will be able to verify your 25% drop in gross receipts using either annual or quarterly data.

- Annual Comparison: If you are demonstrating your 25% reduction on an annual basis, you will need to compare your filed 2019 IRS Form 1040 Schedule C with the information that will go into your 2020 IRS Form 1040 Schedule C. You can use a more informal method, but you'll want to feel confident that your 2020 Schedule C, when filed, will demonstrate a 25% or greater reduction. At forgiveness, we'll need to collect a copy of your final filed 2020 Schedule C to verify the reduction.
  - You'll calculate your "gross receipts" for both 2019 and 2020 based on your Schedule C, by adding line 7 (gross income) plus line 4 (cost of goods sold).
  - Unless your business operates under NAICS code 72, you must include the gross receipts of your Affiliates (businesses under common control) in your calculation. If you are unsure whether related businesses are your Affiliates, see SBA Guidance: [Affiliation Rules for Paycheck Protection Program \(sba.gov\)](https://www.sba.gov/payprotection/affiliation-rules).
  - Here's an example of the calculation you need to make:
    - If your 2019 gross receipts were \$50,000, and your 2020 gross receipts were \$30,000, then:
    - $\$30,000 / \$50,000 = 0.6$
    - $1 - 0.6 = 0.4$
    - Thus, you experienced a 40% revenue reduction for the year – and would easily meet the SBA 25% revenue reduction test.

NOTE: Do not include your prior PPP loan in determining your 2020 gross receipts. If you received an SBA Economic Injury Disaster Loan Program (EIDL) advance, do not include your EIDL advance in determining your gross receipts. (PPP loans and EIDL advances are not considered income for tax purposes.)

- Quarterly Comparison: If you are instead certifying your 25% reduction on a quarterly basis, you will want to do several things:
  - You will want to ensure you'll have evidence at forgiveness that you experienced the 25% drop in any one 2020 quarter as compared to the applicable 2019 quarter. For instance, if you choose to use 2<sup>nd</sup> quarter, you need to show that your gross receipts in the 2<sup>nd</sup> quarter of 2020 were at least 25% lower than they were in the 2<sup>nd</sup> quarter of 2019.
  - You basically follow the same process as we have outlined above for an annual reduction: Compare the gross receipts for those quarters (including gross receipts of any Affiliates) and conclude whether you have a reduction of at least 25%.
  - While in most cases you won't need to provide documentation of this reduction when you apply for your 2<sup>nd</sup> Draw PPP loan, you will need to have financial records from the 2019 and 2020 quarters ready for forgiveness. Documentation might include your quarterly financial statements, business bank statements showing your revenues, Form 1099-MISC (if you receive these forms from customers), your business invoices, etc. If at the time of forgiveness, your filed 2020 Schedule C documents at least a 25% annual reduction as compared to your filed 2019 Schedule C, that will be sufficient documentation of your reduction as well.
  - If you started operating as a sole proprietor, independent contractor or self-employed individual by June 30, 2019: you will compare any quarter in 2019 to the same quarter in 2020.

- If you did not start operating as a sole proprietor, independent contractor or self-employed individual until after June 30, 2019: you will compare either your 3<sup>rd</sup> or 4<sup>th</sup> quarter of 2019 with any quarter of 2020.
- If you did not start operating as a sole proprietor, independent contractor or self-employed individual until after September 30, 2019: you will compare your 4<sup>th</sup> quarter of 2019 with any quarter of 2020.
- If you did not start operating as a sole proprietor, independent contractor or self-employed individual until after December 31, 2019: you will compare your 1<sup>st</sup> quarter of 2020 with any other quarter of 2020.

### May I apply for a PPP loan if I am drawing unemployment compensation?

You cannot draw unemployment for the same period you are using your PPP loan for payroll. If you are drawing unemployment compensation, you will have to stop drawing unemployment compensation for the period covered by your PPP loan. Please check with your state unemployment office and refer to the chart below to determine whether a PPP loan is a good option for you.

	Paycheck Protection Program Loan	Unemployment Compensation (PUA/FPUC)
<b>Amount</b>	Refer to “loan amount” sections above to determine the amount of your PPP loan.	Check with your state unemployment office for the amount of unemployment benefits you are eligible to receive. In general, PUA is ½ your state’s average benefit, depending on income level, and FPUC is an extra \$300/week.
<b>Impact of additional income</b>	If, despite COVID-19, you are still able to work and receive some income from your business, this additional income will <u>not</u> decrease your PPP loan amount or your forgiveness amount.	If, despite COVID-19, you are still able to work and receive some income from your business, this income must be reported to your state unemployment office and it may decrease the amount of your unemployment benefit.
<b>Use of funds</b>	At least 60% of your PPP loan must be used for payroll (your lost income), and the remainder for other eligible business costs.	You may use your unemployment compensation as you choose.
<b>Taxation</b>	PPP loans are <u>not</u> taxable for federal income tax purposes.	Unemployment income is taxable for federal income tax purposes.
<b>Timing</b>	Your PPP loan may be used over a period of 8 to 24 weeks from the date you receive the funds.	Check with your state employment office for the timing of unemployment benefits.

### Other key points if you are applying for a 2<sup>nd</sup> Draw PPP loan

- If we relied on a draft 2019 Schedule C for your first loan, we need to review your final, filed 2019 Schedule C – so send it in with your application.

- Any business that uses a NAICS Code starting in “72” (mostly restaurants, food service businesses and hotels or accommodation businesses) can get a loan based on 3.5 times the eligible payroll amount rather than the standard 2.5 times. If your business fits this criterion, your loan amount will be based on the following formula: line 7 of your Schedule C (net profit), divided by 12, multiplied by 3.5. If you qualify, our system should calculate your loan amount at the 3.5 times multiple.
- Because SBA rules for PPP loans have continued to change since we worked with you on your first PPP loan, we may need to take a more in-depth look at your information before we can approve you for a 2<sup>nd</sup> Draw PPP loan.