

PPP GUIDANCE FOR SCHEDULE C FILERS WITH EMPLOYEES OTHER THAN THE OWNER
(as of March 8, 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 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 **1st Draw PPP loan**). If you already received a 1st Draw PPP loan and you meet additional eligibility requirements, you may apply for a **2nd Draw PPP loan**.

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Am I eligible for a PPP loan (also called a 1st 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 2483-C (PPP First Draw Loan Application for Schedule C Filers using Gross Income). You can find a copy of this application form on SBA's website at [PPP First Draw Borrower Application Form - Schedule C Filers Using Gross Income \(sba.gov\)](https://www.sba.gov/PPP-First-Draw-Borrower-Application-Form-Schedule-C-Filers-Using-Gross-Income); note Self-Help PPP applicant's will complete this form through our online portal.

What is my loan amount for a 1st Draw PPP loan?

Your 1st Draw PPP loan will be equal to 2½ months of your average monthly payroll costs in 2019 or in 2020. At the beginning of March 2021, SBA released guidance for a favorable update to its rules on how average monthly payroll costs are calculated for Schedule C filers. **For 1st Draw PPP loans approved on or after March 5, 2021, you will calculate your loan amount as follows:**

- Calculate eligible Annual Payroll Costs (you may use 2019 documents if basing your loan on 2019, or 2020 documents if basing it on 2020):
 - To get Adjusted Owner Payroll:
 - Start with IRS Form 1040 Schedule C line 7 (gross income);
 - Subtract Schedule C line 14 (employee benefit programs);
 - Subtract Schedule C line 19 (pension and profit-sharing plans);
 - Subtract Schedule C line 26 (employee wages);
 - If the amount is over \$100,000, set this amount to \$100,000; if the amount is \$0 or less, set this amount to \$0.
 - If you own other businesses, your Adjusted Owner Payroll used to calculate your PPP loan amount may not exceed \$100,000 for all of your businesses combined, even if they operate under a separate EIN.
 - To get Adjusted Employee Payroll:
 - Add all four quarters IRS Form 941, line 5c, column 1 (taxable Medicare wages & tips), plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips (up to \$100,000 of gross pay per employee);
 - Add employer-paid state and local taxes assessed on employee compensation (e.g., SUTA) from state quarterly wage filings;
 - Add documented employer-paid contributions to employee group health, life, disability, vision and dental insurance;
 - Add documented employer-paid contributions to employee retirement plans;

- Subtract any amounts for employees whose principal place of residence is outside the U.S.
 - Add Adjusted Owner Payroll & Adjusted Employee Payroll to get Annual Payroll Costs.
 - Divide Annual Payroll Costs by 12 to get Average Monthly Payroll Costs.
 - Multiply Average Monthly Payroll Costs by 2.5. This is your PPP loan amount.

Am I eligible for a second PPP loan (also called a 2nd Draw PPP loan)?

In general, you are eligible for a 2nd Draw PPP loan if you were eligible for and received a 1st 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 2nd Draw PPP loan.
- You experienced at least a 25% reduction in “gross receipts” in at least one quarter of calendar year 2020, as compared to 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 you may not 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 apply for forgiveness, if you are not able to document at least a 25% reduction in at least one quarter of 2020, as compared to 2019, you will have to repay your 2nd Draw PPP loan in full. So, before applying for your 2nd 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.
- You are able to make all of the certifications on SBA Form 2483-SD-C (PPP Second Draw Loan Application for Schedule C Filers using Gross Income). You can find a copy of this application form on SBA’s website at [PPP Second Draw Borrower Application Form - Schedule C Filers Using Gross Income \(sba.gov\)](#); note Self-Help PPP applicant’s will complete this form through our online portal.

What is my loan amount for a 2nd Draw PPP loan?

For most borrowers, your 2nd Draw PPP loan will be equal to 2½ months of your average monthly payroll costs in 2019 or in 2020. At the beginning of March 2021, SBA released guidance for a favorable update to its rules on how average monthly payroll costs are calculated for Schedule C filers. **For 2nd Draw PPP loans approved on or after March 5, 2021, you will calculate your loan amount as follows:**

- Calculate eligible Annual Payroll Costs (you may use 2019 documents if basing your loan on 2019, or 2020 documents if basing it on 2020):
 - To get Adjusted Owner Payroll:
 - Start with IRS Form 1040 Schedule C line 7 (gross income);
 - Subtract Schedule C line 14 (employee benefit programs);
 - Subtract Schedule C line 19 (pension and profit-sharing plans);
 - Subtract Schedule C line 26 (employee wages);
 - If the amount is over \$100,000, set this amount to \$100,000; if the amount is \$0 or less, set this amount to \$0.

- If you own other businesses, your Adjusted Owner Payroll used to calculate your PPP loan amount may not exceed \$100,000 for all of your businesses combined, even if they operate under a separate EIN.
 - To get Adjusted Employee Payroll:
 - Add all four quarters IRS Form 941, line 5c, column 1 (taxable Medicare wages & tips), plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips (up to \$100,000 of gross pay per employee);
 - Add employer-paid state and local taxes assessed on employee compensation (e.g., SUTA) from state quarterly wage filings;
 - Add documented employer-paid contributions to employee group health, life, disability, vision and dental insurance;
 - Add documented employer-paid contributions to employee retirement plans;
 - Subtract any amounts for employees whose principal place of residence is outside the U.S.
 - Add Adjusted Owner Payroll & Adjusted Employee Payroll to get Annual Payroll Costs.
- Divide Annual Payroll Costs by 12 to get Average Monthly Payroll Costs.
- For most borrowers, multiply Average Monthly Payroll Costs by 2.5. This is your 2nd Draw PPP loan amount.
- For borrowers who use NAICS code 72 (accommodation or food services businesses), multiply Average Monthly Payroll Costs by 3.5. For NAICS 72 borrowers, this is your 2nd Draw PPP loan amount.
 - 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, hotel), but you inadvertently left the business activity code blank on your 2019 tax return, then alternative documentation, such as permits or licenses unique to these types of businesses and other information, is required.

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

To apply for a first PPP loan or a 2nd 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, Visa)
- 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 2nd 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 2nd 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 1st Draw PPP loan or a 2nd Draw PPP loan, you will use your PPP loan over a period of 8 to 24 weeks from the date you receive your funds. 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.
 - As a reminder, eligible payroll costs include:
 - the amount of your actual employee payroll costs for the 8- to 24-week period following your receipt of loan funds (up to \$100,000 annualized for each employee whose principal place of residence is in the U.S.); and
 - the amount of Adjusted Owner Payroll that was used to calculate your loan amount.
 - You may use your PPP loan to pay yourself up to the amount of Adjusted Owner Payroll that was used to calculate your loan amount – no additional documentation is needed to document this use for this portion of your loan.
 - You may use your entire PPP loan for payroll for yourself and your employees. This will be the easiest way to use your loan.
- **Non-Payroll Costs:** if you do not use all of your PPP loan for payroll for yourself and your employees, you may 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.

What are the forgiveness requirements for my PPP loan?

In general, if you follow the guidance above on use of your PPP loan, use at least 60% of your loan for eligible payroll costs, and use your PPP funds during a period of 8 to 24 weeks after you receive the funds, you should be eligible for full forgiveness once you have used your PPP funds.

If your loan is over \$50,000, then you also must maintain the wages and hours of your employees, but there are multiple exceptions to this requirement. You can find more information on staff maintenance requirements and exceptions in our PPP FAQ in the Tools & Resources section of our website at [Paycheck Protection Program Loans | CARES Act PPP Loans | Self-Help Credit Union \(self-help.org\)](#).

When you apply for forgiveness, in general you must provide us with a copy of your filed Schedule C. For 2nd Draw PPP borrowers, you must also provide us with documentation of your reduction in gross receipts.

How do I document 25% reduction in gross receipts to be eligible for a 2nd 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 2nd Draw PPP unless your 2nd Draw loan is over \$150,000. 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 2nd 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 \(sba.gov\)](#).
 - 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 2nd quarter, you need to show that your gross receipts in the 2nd quarter of 2020 were at least 25% lower than they were in the 2nd quarter of 2019.
 - 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 3rd or 4th 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 4th 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 1st quarter of 2020 with any other quarter of 2020.
 - 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 2nd 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), 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.

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 to cover your own payroll. If you are drawing unemployment compensation, you will have to stop drawing unemployment compensation for the period your PPP loan is covering your payroll as the business owner. 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)
Amount	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.
Impact of additional income	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.
Use of funds	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.
Taxation	PPP loans are <u>not</u> taxable for federal income tax purposes.	Unemployment income is taxable for federal income tax purposes.
Timing	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.

Do I have to show that current economic uncertainty made my PPP loan necessary?

Whether you are applying for your first PPP loan or a 2nd Draw PPP loan, you must certify that “current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”

- If you are applying for your first PPP loan:
 - If your Schedule C line 7 (gross income) is \$150,000 or less, SBA will deem your certification to have been made in good faith.
 - If your Schedule C line 7 (gross income) is over \$150,000 and you use line 7 to calculate your PPP loan amount, SBA may request additional information to review the basis for your certification at any time, before or after forgiveness. If upon its review SBA determines you lacked an adequate basis for making this certification, you will be required to repay your PPP loan. SBA will consider the circumstances in making its determination, including whether you have other available sources of liquidity to

sufficiently support your business operations, and whether your business has experienced a significant loss in gross receipts due to COVID-19. (Note if you prefer not to be subject to SBA review of your certification that current economic uncertainty made your loan request necessary, you may choose to use line 31 (net profit) to calculate your loan amount using SBA PPP Application Form 2483; in that case, SBA will deem this certification to have been made in good faith even if your gross income exceeds \$150,000.)

- If you are applying for your 2nd Draw PPP loan, SBA will deem your certification to have been made in good faith, because you will be able to document that your business experienced a reduction of 25% or more in gross receipts in at least one quarter of 2020, as compared to 2019.

Other key points if you are applying for a 2nd Draw PPP loan

- If we relied on a draft 2019 Schedule C for your first PPP loan, we need to review your final, filed 2019 Schedule C – so send it in with your application.
- 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 or collect additional documentation before we can approve you for a 2nd Draw PPP loan.
- If you did not already receive a PPP loan in 2020, it may not be possible for you to receive both a first and 2nd Draw PPP loan now. SBA rules require you to use your first PPP loan for eligible purposes before you receive a 2nd Draw PPP loan, and the period for use of a PPP loan is 8 weeks to 24 weeks. If you have not yet received your first PPP loan, it is unlikely you will have time to use your first PPP loan and then apply for a 2nd Draw PPP loan before the program ends.