



# Self-Employment and the Paycheck Protection Program

The brand-new Paycheck Protection Program (PPP) is designed to support American small businesses with immediate cash support during the COVID-19 pandemic, including the **Self-Employed and Independent Contractors** that were in business as of February 15, 2020. MOST of the focus has been on entities with W-2 payroll. This document provides some guidance for those who report their activity on their individual income tax returns and don't have a W-2.

## Benefits of the Paycheck Protection Program

The Paycheck Protection Program is part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This is a nearly \$350-billion program intended to provide American small businesses with eight weeks of cash-flow assistance through 100 percent federally guaranteed loans.

It is important to note that you cannot receive both Unemployment Benefits and a PPP loan at the same time. You should consider the payout of each program to determine which is the best fit for you.

- All small businesses are eligible
- The loan has a maturity rate of 2 years and an interest rate of 0.5%
- No need to make loan payments for the first six months
- No collateral or personal guarantees required
- No fees
- The loan covers expenses dating back to February 15, to June 30, 2020
- The loan can be forgiven and essentially turn into a non-taxable grant

## Sole Proprietors and the PPP

Those who operate as a sole proprietorship report business income on a Schedule C within their individual Income Tax Return Form 1040.

Salary for these businesses will be determined by the net profit reported on Schedule C. If the business is operational in 2019 and has filed the 2019 taxes, this will be reported on line 31 of the Schedule C. If the 2019 return is not filed, the net profit on the income statement can be used.



The monthly average payroll expense will be the annual net profit divided by 12. If annual net profit is over \$100,000, only \$100,000 PLUS any wages ***paid to others***, can be claimed, divided by 12.

### **Sole Proprietors who are Married**

If a sole proprietorship is run by both spouses, only one PPP application needs to be completed. If more than one sole proprietorship is owned, each one can have an application IF THEY HAVE SEPARATE tax identification numbers. The general rule of thumb is for each TIN, an application can be made.

### **Independent Contractors and the PPP**

For independent contractors, they are, by default, Schedule C sole proprietors and follow the above described application / calculation method – using net profit on Schedule C or net profit from an income statement. If neither exists, the total of the 1099-MISC income received for the independent contractor services can be used up to \$100,000, divided by 12.

### **Proof of Income**

The lender will want to see all documents related to any wage, commission, income, or net earnings from self-employment that you have received. This means that you'll need to collect any earnings reports, pay stubs, or invoices you have. THE SPECIFIC TYPES AND EXTENT OF SUPPORT CAN AND WILL DEPEND ON THE INDIVIDUAL BANK you are working with; however, the following is what is generally being requested:

*Sole proprietorships* will need to submit schedules from their 2019 tax return filed (or to be filed) showing income and expenses from the sole proprietorship.

*Independent contractors* will need to submit schedules from their 2019 tax return filed (or to be filed) as well as Form 1099-MISC from 2019.

*All self-employed individuals* will need to submit 2019 payroll tax filings reported to the Internal Revenue Service.

### **Application Timing**

*Sole proprietorships* can apply starting **April 3**.

*Independent contractors* and *self-employed individuals* can apply starting **April 10**.

You are encouraged to apply early as there is a funding cap for this program. You have until **June 30** to submit an application.