

## **BRSW Summary: Paycheck Protection Program**

### **Special Analysis & Clarification for Schedule C and Schedule F Taxpayers**

**April 16, 2020 update**

This is a new law, and the guidance is changing on a daily basis. This is intended to provide guidance and should not be relied upon as authoritative as it may be out of date in a few days.

Each business must consider its own unique circumstances before it makes a decision.

The Small Business Administration issued some additional Interim Final Rules and most of it dealt with self-employed taxpayers. The main clarification was that self-employed taxpayers are to use their net income, not gross income as some have suggested.

*BRSW Note: The additional Interim Final Rules only referenced Schedule C. The Schedule C guidance should apply to Schedule F, until the SBA states otherwise, therefore it is noted below accordingly.*

1. **Individuals with self-employment income who file a Form 1040 Schedule C or Schedule F are eligible if:**
  - a. You were in operation on February 15, 2020.
  - b. You are self-employed.
  - c. Your principal residence is located in the United States; and
  - d. You filed or will file a Form 1040 Schedule C for 2019.
  
2. **Partnerships are eligible for PPP loans and this requires the partnership to include the self-employment income of all partners as part of the overall payroll costs for the partnership. The guidance precludes each partner from getting a loan. However, the guidance is silent on partners that are in multiple partnerships.**
  
3. **If you participate in the PPP, you are prevented from applying for unemployment.**
  
4. **How do I calculate the maximum amount I can borrow?**
  - a. Find your 2019 IRS Form 1040 Schedule C line 31 or Schedule F line 34 net profit amount (if you have not yet filed a 2019, fill it out and complete the value).
    - i. *If this amount is zero or less, you are not eligible for a PPP loan.*
    - ii. *The Schedule C or Schedule F profit is limited to \$100,000.*
  - b. Calculate the average monthly net profit by dividing the net profit by 12.
  - c. Multiply the average monthly net profit by 2.5.
  - d. Add the outstanding amount of any Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of any advance under an EIDL COVID-19 loan (because it doesn't have to be repaid).
  
5. **What documentation is required?**
  - a. Regardless of whether you have filed a 2019 tax return with the IRS, you must provide the 2019 Form 1040 Schedule C or Schedule F with your PPP loan application to substantiate the applied-for PPP loan amount.
  - b. A 2019 IRS Form 1099-MISC detailing nonemployee compensation received (box 7), invoice, bank statement, or book of record that establishes you are self-employed.
  - c. You must provide a 2020 invoice, bank statement, or a book of record to establish you were in operation on or around February 15, 2020.

- 6. How do I calculate the maximum amount I can borrow if I have employees?**
- Your 2019 Form 1040 Schedule C line 31 or Schedule F line 34 net profit amount (if you have not yet filed a 2019 return, fill it out and compute the value), up to \$100,000 annualized, if this amount is over \$100,000, reduce it to \$100,000, if this amount is less than zero, set this amount at zero;
  - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States computed using 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c- column 1) from each quarter plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips; subtract any amounts paid to any individual employee in excess of \$100,000 annualized and any amounts paid to any employee whose principal place of residence is outside the United States; and
  - 2019 employer health insurance contributions (health insurance component of Form 1040 Schedule C line 14), retirement contributions (Form 1040 Schedule C line 19), and state and local taxes assessed on employee compensation (primarily under state laws commonly referred to as the State Unemployment Tax Act or SUTA from state quarterly wage reporting forms).
  - Calculate the average monthly net profit by dividing the net profit by 12.
  - Multiply the average monthly net profit by 2.5.
  - Add the outstanding amount of any Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of any advance under an EIDL COVID-19 loan (because it doesn't have to be repaid).
- 7. How can PPP loans be used by individual with income from self-employment who file a 2019 Form 1040 Schedule C or Schedule F?**
- Owner compensation replacement, calculated on 2019 net profit as described in 4 above.
  - Employee payroll costs (as defined in the First PPP Interim Final Rule) for employees whose principal place of residence is in the United States, if you have employees.
  - Mortgage interest payments (but not mortgage prepayments or principal payments) on any business mortgage obligation on real or personal property (e.g., the interest on your mortgage for the warehouse you purchased to store business equipment or the interest on an auto loan for a vehicle you use to perform your business),
  - Business rent payments (e.g., the warehouse where you store business equipment or the vehicle you use to perform your business), and
  - Business utility payments (e.g., the cost of electricity in the warehouse you rent or gas you use driving your business vehicle). You must have claimed or be entitled to claim a deduction for such expenses on your 2019 Form 1040 Schedule C or Schedule F for them to be a permissible use during the eight-week period following the first disbursement of the loan (the "covered period"). For example, if you did not claim or are not entitled to claim utilities expenses on your 2019 Form 1040 Schedule C or Schedule F, you cannot use the proceeds for utilities during the covered period.
- 8. What amounts are eligible for forgiveness?**
- Payroll costs including salary, wages, and tips, up to \$100,000 of annualized pay per employee (for eight weeks, a maximum of \$15,385 per individual), as well as covered benefits for employees (but not owners), including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums);
  - Owner compensation replacement, calculated based on 2019 net profit as described above, with forgiveness of such amounts limited to eight weeks' worth (8/52) of 2019 net profit, but excluding any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of the Families First Coronavirus Response Act (FFCRA) (Public Law 116-127) or qualified family leave equivalent amount for which a credit is claimed under section 7004 of FFCRA;
  - Payments of interest on mortgage obligations on real or personal property incurred before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business mortgage payments);
  - Rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C or Schedule F (business rent payments); and
  - Utility payments under service agreements dated before February 15, 2020 to the extent they are deductible on Form 1040 Schedule C or Schedule F (business utility payments).

**Conclusion:**

Taxpayers with Schedule C or Schedule F that showed a net profit for year 2019, should speak with their banker immediately to inquire into getting a PPP application completed. The funds are allocated on a first come first serve basis. The application period for Schedule C or Schedule F filers opened on April 10<sup>th</sup>, but the SBA did not give this guidance until Tuesday, April 14<sup>th</sup>. Unfortunately, as of April 16<sup>th</sup>, the SBA announced no new applications were going to be accepted as the funds had been depleted. However, there could be new funds allocated. If that does happen those who already had applications completed will have a better chance to get funds.