

## **COVID-19: SBA Clarifies PPP Loan for the Self-Employed with No Employees**

Be ready! News reports stated that SBA is out of money on the first round of funding. But you don't have to worry because round two is about ready to start.

If you are self-employed, with no employees, you need to qualify for this loan and its forgiveness (think of free money). Here are three questions and answers that you need to know. Please read on.

### **Question 1. I have income from self-employment, no employees, and has file a Form 1040, Schedule C. Am I eligible for a Payroll Protection Program (PPP) Loan?**

Answer 1. You are eligible for a PPP loan if:

- You were in operation on February 15, 2020;
- You are an individual with self-employment income (such as an independent contractor or a sole proprietor);
- Your principal place of residence is in the United States; and
- You have filed or will file a Form 1040 Schedule C for 2019.

### **Question 2. Since I have no employees, how do I calculate the maximum amount I can borrow and what documentation is required?**

Answer 2. Follow the steps below:

1. Find your 2019 IRS Form 1040 Schedule C line 31 net profit. (If you have not yet filed your 2019 tax return, don't fret, fill out the Schedule C now. You need it for the loan.) If the net profit amount is over \$100,000, reduce it to \$100,000.
2. Calculate the average monthly net profit amount (divide the amount from line 1 by 12).
3. Multiply the average monthly net profit amount from line 2 by 2.5.

In addition to your 2019 Schedule C to solidify your loan amount, you need documents to prove you are self-employed, such as a 2019 IRS Form 1099-MISC, invoice, bank statement, or book of record. You also must establish that you were in operation on or around February 15, 2020, with a 2020 invoice, bank statement, or book of record.

**Question 3. What amount of the loan qualifies for forgiveness?(Remember, I don't have any employees).**

Answer 3. You are going to like this. With no employees, your loan forgiveness is:

1. Eight weeks' worth (8/52) of your 2019 net profit (yes, last year—from that Schedule C we used for the loan amount);
2. The mortgage interest paid during the covered period (eight weeks from loan receipt) on real or personal business property (the interest you deduct on Schedule C);
3. Rent payments during the covered period on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business rent payments); and
4. Utility payments under service agreements dated before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business utility payments).

The SBA will reduce your loan forgiveness by any COVID-19 qualified sick or family leave tax credit you claimed.

## **Example**

**Loan amount.** Say your Schedule C shows \$120,000 of net profit. Your limit is \$100,000. Divide that by 12, and your monthly amount is \$8,333. Multiply that by 2.5, and your loan amount is \$20,833.

**Loan forgiveness.** Your loan forgiveness is \$15,385 (8/52 of \$100,000) plus qualifying interest, rent, and utilities not to exceed total loan forgiveness of more than \$20,513.

In this example, up to \$20,513 is free money (\$15,385 is the minimum free money). Make sure you are in a position to apply for the PPP loan because the funds are either ready or still in process.

## **Conclusion**

Please contact our office if you have any questions about this topic or other tax-related events.

**Source:** <https://www.thf-cpa.com/2020/04/15/paycheck-protection-program-ppp-calculate-maximum-amount-can-borrow/>