

PPP Self-Employed Loan Forgiveness

As of 6/10/2020

Items noted with an * will be updated once further guidance is provided related to H.R. 7010 – Paycheck Protection Program Flexibility Act of 2020.

As self-employed individuals who received a Paycheck Protection Program (PPP) loan look forward to maximizing their loan forgiveness, consider these steps to prepare.



Self-Employed with No Employees

Track total eligible costs incurred and paid during the covered period following the loan funding

- Owner compensation replacement
 - Limited to the lesser of 8/52 of 2019 net profit (2019 Form 1040 Schedule C, line 31) or \$15,385*
- Mortgage interest on real or personal property
 - For mortgages in effect prior to 2/15/2020
 - Limited to the extent it was claimed or entitled to be claimed on your 2019 Schedule C
- Rent/lease payments on real or personal property
 - For agreements in effect prior to 2/15/2020
 - Limited to the extent it was claimed or entitled to be claimed on 2019 Schedule C
- Utilities
 - Includes payment for electricity, gas, water, transportation, telephone, or internet access.
 - Service must have been established prior to 2/15/2020
 - Limited to the extent it was claimed or entitled to be claimed on 2019 Schedule C

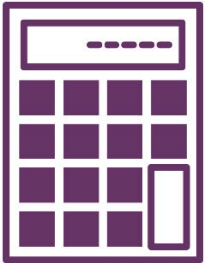
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Self-Employed with Employees Step 1

Track total eligible costs incurred and paid during the 8-week period following the loan funding

- Owner compensation replacement
 - Limited to the lesser of 8/52 of 2019 net profit (2019 Form 1040 Schedule C, line 31) or \$15,385
- Payroll costs
 - Compensation to employees including such items as:
 - Salary, wages, commissions or similar
 - Cash tips or the equivalent
 - Payment for leave
 - Allowance for separation or dismissal
 - Housing allowance or stipend
 - Payments for group healthcare benefits including group health care coverage
 - Payment of any retirement benefits
 - Housing allowance or stipend
 - Payment of state and local taxes assessed on the compensation of employees
- Mortgage interest on real or personal property
 - For mortgages in effect prior to 2/15/2020
 - Limited to the extent it was claimed or entitled to be claimed on 2019 Schedule C
- Rent/lease payments for real or personal property
 - For agreements in effect prior to 2/15/2020
 - Limited to the extent it was claimed or entitled to be claimed on 2019 Schedule C



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- Utilities
 - Includes payment for electricity, gas, water, transportation, telephone, or internet access.
 - Service must have been established prior to 2/15/2020
 - Limited to the extent it was claimed or entitled to be claimed on 2019 Schedule C

Step 2

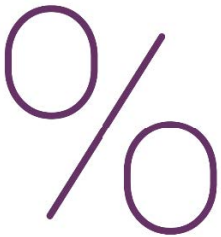
Calculate any reduction in payroll > 25% of prior quarter

- For any employee who did not receive, during any single pay period during 2019, wages/salary at an annualized rate of pay more than \$100K.
- Did their pay during the cover period decrease by more than 25% from the previous full quarter?
Reduce forgivable amount by the reduction that exceeds 25%.

Step 3

Calculate any % decrease in FTEs from the covered period versus the following periods:

- February 15 through June 30, 2019 or, at the borrower's election, January 1 through February 29, 2020
- Seasonal businesses will use February 15 to June 30, 2019 or any consecutive 12-week period between May 1, 2019 and September 15, 2019



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Step 4

Calculate any adjustment because FTEs and salary/wages were restored by December 31st, 2020

- If “restore” criteria are met, the decreases in steps 3 and 4 are ignored.

Step 5

Calculate payroll costs for forgiveness floor

- 60% of eligible costs are to be used on payroll
- If less than 60%, the forgiveness is reduced

Additional considerations:

- As a reminder, the CARES Act excludes from payroll costs:
 - Annualized salaries greater than \$100K
 - Taxes imposed or withheld under chapter 21,22, or 24 of the IRC of 1986 (e.g. the employer’s share of FICA and Medicare are not included as payroll costs)
 - Compensation of any employee whose principal place of residence is outside the US
 - Qualified sick or family leave for which a credit allowed under §7002 or §7004 of the FFCRA
 - Payments to Independent Contractors
 - Retirement or health insurance benefits for self-employed individuals

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- Payroll providers are developing PPP-compliant reports to track both payroll and benefits
- Some lenders are requiring PPP loan proceeds be put into a separate bank account. When the application for loan forgiveness is completed, the documentation such as payroll reports, payroll tax returns, canceled checks, receipts, account statements or other documentation of payments will be required to be retained for six years. Disbursing eligible costs from a separate account may assist in the documentation process.
- The Treasury has indicated additional guidance, a modified borrower application, and a modified loan forgiveness application will be issued.
- Additional guidance may be issued by the SBA so please revisit this document regularly for updates.

