

5 Steps to Getting a Self-Employed Paycheck Protection Plan (PPP) Loan

Please read the one pager on how PPP works first as it is intended as a companion for certain taxpayers

Step One: Do I Qualify for a Self-Employed PPP Loan?

- ❑ You are an individual taxpayer affected by the COVID-19 virus who filed a 2019 Form 1040, Schedule C (Profit or Loss from Business) as a sole proprietor, independent contractor, qualified joint venture or single member LLC, and you showed a profit.

OR

- ❑ You were a partnership (or multi-member LLC) affected by the virus whose partners had self-employment income on their 2019 Form 1065, Schedules K-1. Individual partners are ineligible.



Step Two: How Do I Calculate My Self-Employed PPP Loan?

- ❑ *Self-employed taxpayers:* Line 31 of the 2019 Form 1040, Schedule C (only count the first \$100,000 of such profit), divided by 12 and multiplied by 2.5.
- ❑ *Partnerships:* Line 14 of each partner's Form 1065, Schedule K-1 (count only the first \$100,000 for each partner), divided by 12 and multiplied by 2.5.



You may also include payroll (as defined by the statute) for any W-2 employee. Each taxpayer can only receive one PPP loan, so all expenses should be included to maximize loan proceeds.

Step Three: How Do I Document a Self-Employed PPP Loan?

- ❑ A copy of the 2019 Form 1040 Schedule C (or 2019 Form 1065, Schedules K-1) that you have filed or will file.
- ❑ Form 1099-MISC or another record (like a bank statement) that proves self-employment.
- ❑ If applicable, payroll and employee benefits records for 2019.
- ❑ An invoice or other record that proves business activity (and payroll, if applicable) on or near February 15, 2020.



Step Four: What Can I Use My PPP Loan for?

- ❑ Payroll expenses (as defined in the PPP rules). See the owner compensation rule below.
- ❑ Business rent on leases entered into before February 15, 2020 (excludes home offices).
- ❑ Business utilities (as claimed on Form 1040, Schedule C or Form 1065).
- ❑ Business interest on debts incurred before February 15, 2020.



Step Five: Can My PPP Loan Be Forgiven?

All of the forgiveness rules of solely payroll-based PPP loans still apply. However, there is an additional benefit for self-employed taxpayers and partnerships.

Under a special rule, 8/52nds of Schedule C net profit (capped at \$100,000), or of Schedule K-1 self-employment earnings (capped at \$100,000 per partner), is considered “payroll” for PPP loan forgiveness purposes. This is known as “owner compensation replacement.”

Owner compensation replacement counts as payroll toward the 75 percent forgiveness test. It is also completely forgiven as part of the PPP process.

Whatever remains of the PPP funds after applying the forgiveness rules is treated as a PPP loan that must be paid back under the usual terms of the PPP loan program.

