



PP&Co Action Alert

April 17, 2020

SBA Clarifies Paycheck Protection Program (PPP) Loan Rules for Partnership Compensation and Schedule C Earnings

NOTE: As of April 16th, the PPP has run out of money. The SBA is currently unable to accept new applications for the PPP loans until Congress provides additional funding.

The SBA issued a [new Interim Final Rule](#) on April 14th, providing guidance on the following two outstanding issues with regard to Paycheck Protection Program Loans:

1. Treatment of distributions and guaranteed payments to partners, and
2. Eligibility of self-employed individuals who file a 1040 Schedule C.

Treatment of Distributions and Guaranteed Payments to Partners

This was one of the more confusing and hotly debated topics in the CARES Act. The language in the statute created confusion as to whether each partner in a partnership should apply for a PPP Loan as a self-employed individual. Processing so many individual partners' PPP Loans would have created undue hardship on the partners, the banks, and the SBA – and would have added more confusion to the PPP Loan forgiveness calculation.

The April 14th SBA guidance states that the individual partners **may not** apply for PPP Loans. Instead, **partners should report their distributions and/or guaranteed payments as payroll costs of the partnership, subject to the \$100,000 annual limit.** If you have applied for a PPP Loan and did not include applicable partner compensation as part of payroll, you should contact your lender immediately.

Eligibility of Self-Employed Individuals who File a 1040 Schedule C

A self-employed individual is eligible for a PPP Loan if they

- a. were in business on February 15, 2020,
- b. have self-employment income as an independent contractor or sole proprietor,
- c. are a U.S. resident, and
- d. filed or will file a 2019 Form 1040 Schedule C.

Self-employed individuals **without** employees can receive a PPP Loan of up to 2.5 times the average monthly Net Profit on line 31 of their 2019 Schedule C. Annual Net Profit is limited to \$100,000, so the maximum loan amount for a self-employed individual without employees is \$20,833. In addition, self-employed individuals may refinance an Economic Injury Disaster Loan (EIDL) received between January 31, 2020 and April 3, 2020, less the amount of any grant received (up to \$10,000) under an EIDL. This EIDL amount would then be added to the PPP and, thus, subject to the rules and restrictions thereof. Self-employed health insurance and retirement benefits are excluded for owners.

Self-employed individuals **with employees** are eligible for loans of up to 2.5 times the average 2019 monthly 'payroll costs' paid to their employees, plus the owner amount as noted above. Payroll costs include gross wages and tips paid to U.S. employees, health insurance, retirement contributions, and state and local taxes assessed on the payroll. Again, the health insurance and retirement benefits of the owner are ineligible.

We strongly encourage you to remain in constant contact with your lender to ensure that you are providing them with all the information needed to process the loan. Have questions or need guidance? We can help. Contact us at info@ppandco.com or (408) 287-7911 for assistance.

Our focus. Your **freedom.**