



LAW ALERT

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Independent Contractor Alert

The SBA released an Interim Final Rule regarding eligibility criteria for self-employed individuals on April 15, 2020. This rule is to supplement the other guidance that has been issued to date. Funding is limited and for this reason we recommend submitting a loan application as soon as possible to enter the queue. Self-employed individuals are eligible for a PPP loan if they meet the following requirements:

- In operation on February 15, 2020
- An individual with self-employment income
- Principal place of residence in the United States
- Filed or will file a Form 1040 Schedule C for 2019

Those in a partnership may not submit a separate PPP for yourself as a partner. Partnerships are eligible for PPP loans, but are limited to one loan for the partnership. The \$100,000 maximum per employee still applies to self-employed individuals. Individuals must provide a 2020 invoice, bank statement, or book of record to establish that operation existed on or around February 15, 2020

Loan proceeds may be used for:

- Owner compensation replacement based on 2019 net profit
- Employee payroll costs for employees whose principal place of residence is the United States (up to \$100,000 per employee)
- Mortgage interest payments on any business mortgage obligation
- Business rent and utility payments

It is important to note you must have claimed or be entitled to claim a deduction for such expenses on your 2019 Form 1040 Schedule C for them to be a permissible use during the eight week period after disbursement of the loan. If you did not claim or were not entitled to claim utilities expenses on your 2019 Form 1040 Schedule C you cannot use loan proceeds for those utilities during the covered period. Interest payments on any other debt obligations that were incurred before February 15, 2020. Furthermore, self-employed individuals must use loan proceeds for allowable uses for which the borrower made expenditures in 2019. At least 75% of the PPP proceeds shall be used for payroll costs as outlined in the First PPP Interim Final Rule. The maximum loan amount is based upon 2.5 months of the borrower's payroll during the one-year period preceding the loan. Loan forgiveness for Independent Contractors is calculated by multiplying your 2019 Schedule C reported income by 8/52.

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If you are self-employed and do not employ other individuals, the loan calculation maximum shall be determined by:

- 2019 IRS Form 1040 Schedule C line 31 net profit amount (if you have not yet filed a 2019 return, fill it out and compute the value). If this amount is over \$100,000, reduce it to \$100,000. If this amount is zero or less, you are not eligible for a PPP loan.
- Calculate the average monthly net profit amount (divide the amount from above by 12).
- Multiply the average monthly net profit amount from Step 2 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 does not have to be repaid).

If you have any questions, please contact

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