

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

the Paycheck Protection Program ("PPP") applies to them. If you remember, the initial CARES Act language included 1099s as part of payroll costs for small businesses ...

**Marty McCutchen** • Apr. 15, 2020



At last, The Treasury issued guidance related to self-employed individuals and how the Paycheck Protection Program ("PPP") applies to them. If you remember, the initial CARES Act language included 1099s as part of payroll costs for small businesses, but subsequently The Treasury issued guidance excluding 1099 contractors from the small business portion of the PPP. We all thought that was

okay since self-employed and independent contractors could not apply for PPP until

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

- All individual with self-employment income
- Principal place of residence is in the United States
- You filed or will file Form 1040 Schedule C for 2019

Note: General partners in partnerships that have self-employment income will fall under the rules for small businesses.

### **Calculation:**

1. Prepare (it doesn't have to be filed) the 2019 Form 1040 Schedule C and take the amount from Line 31.
  - If this amount is greater than \$100,000, limit it to \$100,000.
  - If this number is \$0 or less, the business doesn't qualify for PPP
2. If the business had employees in 2019, include the payroll costs (as defined in the First PPP Interim Final Rule) associated with these employees in 2019 (cap any employees payroll costs at \$100,000)
3. Add 1 and 2 together
4. Divide the amount from 3 above by 12 to get the average monthly income
5. Multiply the monthly average income by 2.5
6. Add any amount of EIDL originated between 1/31/20 and 4/3/20 that you wish to refinance
7. Subtract any advance received from EIDL

### **Documentation:**

#### **2019**

- Prepared 2019 Form 1040 Schedule C
- 2019 quarterly Form 941s and quarterly state unemployment forms – if employees were paid in 2019

- Supporting evidence of retirement and health insurance expenses – if employees

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

- Owner compensation replacement based on the 2019 Schedule C
- Employee costs as defined in the First PPP Interim Final Rule for employees residing in the United States (75% of the PPP proceeds must be used for payroll costs)
- Mortgage interest payments on business mortgages (real or personal property, including automobiles)
- Rent
- Utilities (electricity, natural gas, water, phone, internet, gas for automobiles). To be forgiven, these expense must be claimed on the 2019 Schedule C.

The Treasury did a pretty good job of creating rules that were consistent for small businesses and self-employed individuals except for the new requirement to prepare a 2019 Schedule C. This should make it more efficient for the banks to process both groups at the same time.

One statement in the updated rules that I think everyone should keep in mind while participating in the Paycheck Protection Program: “The Administrator and the Secretary thus believe that this limitation is *consistent with the structure of the Act to maintain existing operations and payroll and not for business expansion.*” We need to remind our clients that the Federal Government is outsourcing the unemployment office to businesses and that any other use of these funds will cause them lots of trouble down the line.

=====

*Marty McCutchen, CPA, provides proactive tax and profit advice for businesses and their owners. Lately, he has been advising businesses on how to navigate through the COVID-19 crisis and helping business owners make the best decisions to strengthen their business.*

<https://www.cpaindfw.com/>

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us