

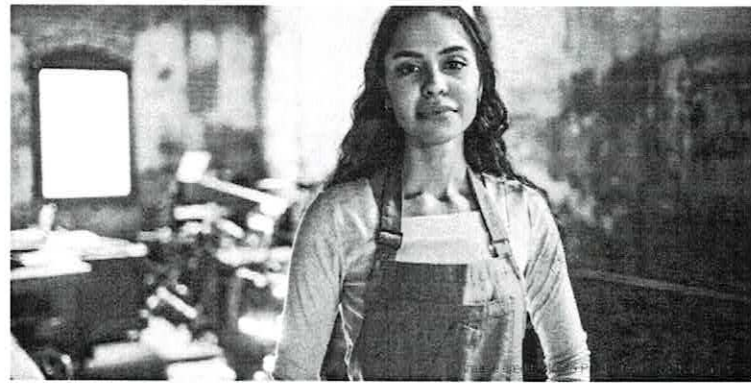
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Self-Employed With No Employees? You Can Still Get a PPP Loan

Here is some clarity for frustrated sole proprietors across America.

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May 7, 2020 5 min read

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There has been a tremendous amount of frustration by small business owners operating as sole proprietors and trying to obtain a Paycheck Protection Program (PPP) loan. To make matters worse, many bankers and loan officers have been overwhelmed by the number of applications, the speed of the stimulus roll out and sporadic SBA guidance regarding protocol for sole proprietors.

Then there is the historic, perpetual confusion shared by many of the self-employed regarding the difference between independent contractors and employees. Regrettably, all of these factors converged simultaneously over the past month, making it very difficult for small-business owners to apply properly for the PPP — and many have simply given up trying to apply.

My hope is to provide some clarity for sole proprietors across America desperately trying to obtain a PPP loan before the money runs out. Let's start by getting a few facts out on the table before proceeding.

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- Being an independent contractor means you are a small-business owner or sole proprietor.
- Receiving one or more 1099s constitutes being an independent contractor.
- As an independent contractor or sole proprietor, you would file a Schedule C with your 1040 tax return each year.
- Paying workers with a 1099 is NOT having employees. If you *did* have employees, you would issue W2s and pay employment taxes and Workers Compensation Insurance.
- You can have a Limited Liability Company (LLC) and still be a sole proprietor or independent contractor.

The PPP Calculation for the Sole Proprietor

As stated above, this article applies to those of you filing a Schedule C as a sole proprietor/independent contractor, NOT if you are filing as an S-Corporation and taking a salary. I mention this again, because it's important for sole proprietors to not get confused by some of the rules that apply to corporations and not to them. Please note the following:

- No calculation on the PPP application will involve payroll, because you *don't* have employees, and thus no payroll numbers for you or others will exist.
- Again, paying others with a 1099 is not considered payroll.
- Health-insurance premiums will not be considered in any part of the calculation.
- Contributions to retirement accounts, whether a SEP, Solo 401k or IRA, are irrelevant.

(These four items above only apply to corporations with W-2 Payroll)

Next, in order for a sole proprietor to properly apply for the PPP loan, it is absolutely required that they have their 2019 1040 Personal Tax Return filed and the accompanying Schedule C.

Regrettably, in the early weeks of the stimulus plan, some banks anxious to help their customers would allow sole proprietors to apply with a simple 1099, a profit-and-loss statement or even a 2018 tax return. If any of these situations applied to you, and you ultimately received a PPP loan based on this information, it's important you get professional advice immediately on how to move forward in the forgiveness stage and subsequent application.

Once the business owner has their 2019 Schedule C in hand, the calculation is actually quite straight forward. The math is as follows:

2019 Schedule C Income (line 31)

 Total Divided by 12 and multiplied by 2.5

For example, if a Sole-Proprietor has the following net-income in 2019, the PPP would be as follows:

\$80,000 net-income, equates to \$16,666

\$40,000 net-income, equates to \$8,333

\$20,000 net-income, equates to \$4,1666

Again, keep in mind this is tax-free income and can be entirely forgiven if the business owner spends the money according to the guidelines under the CARES Act.

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How to Obtain Loan Forgiveness

On the face of it, the process seems quite simple on how the loan is forgiven. Essentially, the business owner has eight weeks to spend the money on specific expenses in order to have it completely forgiven. The money is to be spent on payroll (presumably compensation for the owner of the business), as well as some portion for rent, utilities and interest on fixed-debt obligations.

However, the loan-forgiveness procedure is still somewhat hazy for a sole proprietor. A significant amount of direction has been provided for business owners with payroll, but how do self-employed individuals actually pay themselves in order to comply with the law? Only time will tell, and I will be publishing more articles and videos on the topic as the SBA and Treasury Department issue more guidance.

The Takeaway: Determine if the PPP works for your business, and do so by calculating the numbers based on your Schedule C for 2019. None of this happens, nor does the application even get underway, until the sole proprietor files their 2019 1040 Schedule C. Get in line as soon as you can if you are seeking the PPP loan, and have a consult with a professional while you wait.

Mark J. Kohler is a CPA, Attorney, co-host of the Radio Show, Refresh Your Wealth, and author of the new book, The and Legal Playbook – Game-Changing Solutions for Your Small-Business Questions: 2nd Edition, and The Business Owner’s Guide to Financial Freedom – What Wall Street Isn’t Telling You. He is also a partner at the law firm Kyler Kohler Ostermiller & Sorensen, LLP and the accounting firm K&E CPAs, LLP.



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