

# **Key Points on Applying for a 2<sup>nd</sup> PPP loan if You Are A Self-Employed Individual With No Employees:**

**NOTE:** This guidance is meant for businesses that file their business tax returns on Schedule C of a 1040 Personal Tax Return and have no wage employees (other than the owner).

**You will find guidance on how to calculate your loan amount at the end of this document.**

There are some key differences in applying for a 2<sup>nd</sup> Draw PPP Loan vs. your first go-round – primarily in terms of what you’ll need to certify in your application and how you can calculate the 25% reduction in gross earnings you need to demonstrate to be eligible for a second loan – that we encourage you to review before you start addressing your loan amount.

So please read through these advisories before jumping to the loan amount guidance at the end. Thanks.

## **What Are Your Key Eligibility Tests?**

You must certify that you experienced at least a 25% reduction in “gross receipts” in 2020, as compared to 2019. In general, SBA defines gross receipts as “all revenue in whatever form received or accrued (based on your accounting method), from whatever source.” You can review our website FAQ for SBA’s complete definition if you need more detail to make this determination.

You can establish this decrease on either an annual or a quarterly basis.

Look below to find more about the specific documentation requirements based on the size of your loan.

You can’t have more than 300 employees at the time of your 2<sup>nd</sup> Draw PPP loan application.

For larger businesses, just be mindful that, in determining size eligibility, SBA counts each person you employ as one employee – whether they are full-time or part-time. So: If you have 200 full-time employees and 150 part-time employees, you have too many employees to qualify.

You need to have spent all the money you received in your first PPP loan.

You do not have to have completed the forgiveness process to apply for a 2<sup>nd</sup> Draw PPP loan – but you will need to certify that you’ve spent all the funds from your first loan for PPP-eligible purposes.

You need to certify that you are currently in business – or plan to resume operations.

The SBA’s guidance on this point reads in part:

This provision prohibits an entity that has gone out of business and has no intention of reopening from receiving a PPP loan....PPP was not intended to support businesses that have permanently closed. A borrower that has temporarily closed or temporarily

suspended its business but intends to reopen remains eligible for a PPP loan.

If you have had to discontinue operations temporarily because of local conditions during the COVID crisis, you are still eligible if you plan to reopen.

## **What Documentation Do You Need to Provide Us Upfront?**

In addition to completing the information requirements in our online application, you will need to send us your final filed Schedule C from your 2019 return. Because many borrowers provided us with a draft Schedule C at application, we need to check that tax form against what we have in our records, so that we can verify we have the correct, final version.

We will contact you if we determine we need additional documents after we have done a thorough review of our file from your first loan.

## **How Can You Document Your 25% Reduction in Gross Receipts?**

**Because as a sole proprietor with no employees your loan will be well below \$150,000, you do not have to provide us with upfront documentation of your 25% or greater reduction in “gross receipts” when you apply for your 2<sup>nd</sup> Draw PPP.**

You must provide us with proof of the reduction when you are ready to seek forgiveness of your loan or at any time upon SBA request. SBA randomly reviews PPP loans from every lender and may conduct a review at any time, before or after the forgiveness process, for up to 4 years.

SBA will not forgive your PPP loan if you cannot provide documentation of the required reduction at forgiveness. In that case, you would have to pay off the full amount of your 2<sup>nd</sup> Draw PPP loan over a 5-year period.

Before you apply, you should review your financial statements and get comfortable that you have experienced at least a 25% reduction and will be able to document that when it is time to apply for forgiveness. Here are some tips on how to do that.

### **If you were in business for all of 2019:**

You will be able to verify your 25% drop in gross receipts using either annual or quarterly data.

If you are demonstrating your 25% reduction on an annual basis, you will need to compare your filed 2019 IRS Form 1040, Schedule C with the information that will go into your 2020 IRS Form 1040, Schedule C.

You can use a more informal method, but you’ll want to feel confident that your 2020 Schedule C, when filed, will demonstrate a 25% or greater reduction. At forgiveness, we’ll need to collect a copy of your final filed 2020 Schedule C to verify the reduction.

To calculate your “gross receipts” for both 2019 and 2020 based on your Schedule C:

- Add line 7 (gross income) plus line 4 (cost of goods sold).
- Alternatively, if line 2 (returns and allowances) and line 6 (other income) are blank, you can simply use line 1 (“gross receipts”) as your figure for that year.

Here’s an example of the calculation you need to make:

- If your 2019 gross receipts were \$50,000, and your 2020 gross receipts were \$30,000, then:
- $\$30,000/\$50,000 = 0.6$
- $1 - 0.6 = 0.4$

Thus, you experienced a 40% revenue reduction for the year – and would easily meet the SBA 25% revenue reduction test.

NOTE: Your prior PPP loan is not considered “income” for purposes of determining your 2020 gross receipts. (PPP loans are not considered income for tax purposes.)

If you are certifying your 25% reduction on a quarterly basis, you will want to do several things:

- You will want to ensure you’ll have evidence at forgiveness that you experienced the 25% drop in any one 2020 quarter as compared to the 2019 quarter to which you’re comparing your 2020 results. For instance, if you choose to use Q2, you need to show that your gross receipts in Q2 2020 were at least 25% lower than they were in Q2 2019.
- You basically follow the same process as we have outlined above for an annual reduction: Compare the gross receipts for those quarters and conclude whether you have a reduction of at least 25%.
- While you don’t need to give it to us now, you will need to have financial records from the 2019 and 2020 quarters ready for forgiveness. Documentation might include your quarterly financial statements, business bank statements showing your revenues, Form 1099-MISC (if you receive these forms from customers), your business invoices, etc. If at the time of forgiveness, your filed 2020 Schedule C documents at least a 25% annual reduction as compared to your filed 2019 Schedule C, that will be sufficient documentation of your reduction as well.

NOTE: Your prior PPP loan is not considered “income” for purposes of determining your 2020 gross receipts. (PPP loans are not considered income for tax purposes.)

**If you were not yet in business in Q1 2019:**

At forgiveness, you will need to provide documentation that you experienced at least a 25% drop in gross receipts during any one quarter of 2020 as compared to your results in either Q2, Q3 or Q4 2019.

To verify for yourself that you experienced a 25% reduction, you should follow the documentation guidelines outlined above.

**If you were not yet in business in Q1 and/or Q2 2019:**

At forgiveness, you will need to provide documentation that you experienced at least a 25% drop in gross receipts during any one quarter of 2020 as compared to your results in either Q3 or Q4 2019.

To verify for yourself that you experienced a 25% reduction, you should follow the documentation guidelines outlined above.

**If you were not yet in business during Q1 through Q3 2019:**

At forgiveness, you will need to provide documentation that you experienced a drop in gross receipts of at least 25% during any one quarter of 2020 as compared to your results in Q4 2019.

To verify for yourself that you experienced a 25% reduction, you should follow the documentation guidelines outlined above.

## **How Can You Use Your 2<sup>nd</sup> PPP Loan?**

The SBA has expanded the ways you can use your PPP loan proceeds:

- Payroll costs - you still must spend at least 60% of your loan on eligible payroll costs;
- Rent or lease payments;
- Interest payments on mortgages or secured debt;
- Utilities payments;
- Operating expenses for certain business software and cloud computer services – such as for accounting and payroll, sales and billing, etc.
- Property damage costs related to rehabbing your building following “public disturbances that occurred during 2020,” if these costs were not covered by your insurance;
- Certain costs related to contracts, orders or purchase orders made with your goods suppliers; and
- Certain expenses related to complying with state and federal standards related to protecting your workers on the job from the effects of COVID 19.

(Review our website FAQ document for more details on eligible expenditures.)

Please check all boxes on your application that you think you’ll want to pay with your PPP loan.

We hope this information helps you figure out how a PPP 2<sup>nd</sup> draw loan might help your business. We look forward to hearing from you soon!

## What Loan Amount Can You Apply For on a PPP 2<sup>nd</sup> Draw Loan??

For the most part, the rules on how to calculate your loan amount are very similar to what you had to do on your 1<sup>st</sup> Draw PPP loan:

- Take the net profit you report on Line 31 of the Schedule C for your personal tax return.
- Divide by 12. That will give you your “**average monthly payroll**” for your application.
- Multiply by 2.5. That will give you your “**Loan Request**” amount for your application.

Under the current regulatory guidance for PPP loans, there are no other amounts that you may include in your PPP loan request.

You have the choice of basing your PPP loan off the Net Profit on Line 31 of either your 2019 or your 2020 Schedule C. In most cases, your first PPP loan amount was based on the 2019 Schedule C information you provided to us at the time of your application.

Unless your Schedule C Net Profit increased in 2020 compared to 2019 (which is very unlikely if you had the required 25% drop), you are likely to be better off if you apply using 2019, just as you did for your first loan.

Because we have already compiled information and structured your first PPP loan, we will do our best to rely on the documentation we got for the first loan. This will help us process your 2<sup>nd</sup> Draw PPP loan as quickly as possible, and with fewer requests for additional documentation.

The primary exceptions to relying upon your prior loan calculation would be:

- You experienced a growth in your payroll expenses in 2020 (while also meeting the 25% gross earnings reduction test).
- You were not in business for a full year in 2019, so a calculation based on 2019 numbers does not maximize your eligible payroll (again assuming that you can meet the annual or quarterly reduction test).

Here are a few other key points for you to consider:

- If we relied on a draft 2019 Schedule C for your first loan, we need to review your final, filed 2019 Schedule C – so send it in with your application. If line 31 of your filed Schedule C is lower than it was on your draft Schedule C, we will have to adjust your loan amount.
- Any business that uses a NAICS Code starting in “72” (mostly restaurants, food service businesses and hotels or accommodations businesses) can get a loan based on 3.5 times the eligible payroll amount rather than the standard 2.5 times. If your business fits this criterion, your loan amount will be based on the following formula: line 31 of your Schedule C (net profit), divided by 12, multiplied by 3.5. If you qualify, our system should calculate your loan amount at the 3.5 times multiple.

- Because SBA rules for PPP loans have continued to change since we worked with you on your first PPP loan, we may need to take a more in-depth look at your information before we can approve you for a 2<sup>nd</sup> Draw PPP loan.

If you do wish to base your 2<sup>nd</sup> Draw PPP loan on a draft 2020 Schedule C instead of using your filed 2019 Schedule C, you'll need to let us know when you apply. We'll then figure out what documentation we need from you and give you instructions on what else we need. We also need to give you a heads-up that it will take us more time to review your loan and figure out what you may be eligible for if you do that – so please be patient with the process.

For more detailed advice about how to calculate your loan amount, please refer to our online FAQ at: <https://www.self-helpfcu.org/business/loans/paycheck-protection-program-loans>