

SBA Adjusts PPP Payroll Calculation For Form 1040, Schedule C Filers

The Small Business Administration (“SBA”) has issued a new [Interim Final Rule](#) that allows certain borrowers to calculate their maximum loan amounts using gross income. The SBA has also updated its forms for borrowers and lenders to account for this change. Previous SBA standards defined payroll costs for Form 1040, Schedule C filers as payroll costs plus net profits, which is the amount of net earnings from self-employment. This formula did not take into account miscellaneous business expenses that a small business must cover to stay in operation. It particularly harmed sole proprietors with small net profits.

New Calculation

For Form 1040, Schedule C filers, the term “income” will now be broadly construed to include gross income. Allowing borrowers to receive loan amounts based on gross income will allow the Paycheck Protection Program to distribute funds based on necessary business expenditures and provide more relief to struggling sole proprietors.

Gross income is the amount the borrower reports on line 7 of Schedule C. If a Schedule C filer has no employees, the borrower may elect simply to calculate its loan amount based on either net profit or gross income. If a Schedule C filer has employees, the borrower may elect to calculate the owner compensation share of its payroll costs based on either (i) net profit or (ii) gross income minus expenses reported on lines 14 (employee benefit programs), 19 (pension and profit-sharing plans), and 26 (wages (less employment credits)) of IRS Form 1040, Schedule C.

Expenses reported on lines 14, 19, and 26 of the IRS Form 1040, Schedule C represent employee payroll costs and are subtracted from the owner compensation share of payroll costs if the owner uses the gross income to calculate its loan amount in order to avoid double-counting these costs. In the context of determining a borrower’s eligible expenses and forgiveness amount, this interim final rule refers to the owner compensation share of a Schedule C filer’s loan amount as “proprietor expenses.” Proprietor expenses encompass an owner’s business expenses and own compensation but do not include employee payroll costs. This proprietor expenses calculation limits a Schedule C filer that included employee payroll costs in determining the PPP loan amount from taking the full loan amount as owner compensation.

Updated Requirements; New Eligibility

Businesses electing to use the gross income to calculate their first PPP Loan will only have a safe harbor presumption of making the necessary certification of economic necessity if they reported \$150,000 or less in gross income on their Schedule C being used to apply for a first-draw PPP loan. Borrowers with reported gross income greater than \$150,000 will be subject to additional SBA review.

The SBA has also removed a restriction on business at least 20% owned by an individual who was arrested for or convicted of a felony related to financial assistance fraud in the previous five years or any other felony within the previous year from obtaining PPP loans. Additionally, the

new changes remove a restriction on businesses at least 20% owned by an individual who is delinquent on a student loan from receiving PPP loans.

Notably, borrowers that have already had their loans approved cannot increase their PPP loan amount based on the new formula.

The New Loan Forms are Here:

[Access the new first draw application form.](#)

[Access the new second draw application form.](#)

[Access the first draw Schedule C gross income form.](#)

[Access the second draw Schedule C gross income form.](#)

[Access the lender first draw form.](#)

[Access the lender second draw form.](#)

Contact Us

Fraser Stryker's business attorneys are here to help:



Mark L. Brasee

mbrasee@fraserstryker.com

(402) 978-5306



Jonathon H. Latka

jlatka@fraserstryker.com

(402) 978-5329

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