

Michael DeDonato J.D., M.B.A.
Business Advisor
Small Business Development Center (SBDC)
El Camino College
13430 Hawthorne Blvd.
Hawthorne, CA 90250
310 225-8277 office
www.southbaysbdc.org



Self-Employment and the Paycheck Protection Program

By Owen Yin on April 1, 2020

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The brand-new Paycheck Protection Program (PPP) is designed to support American small businesses with immediate cash support during the COVID-19 pandemic. If you are a sole proprietor, an independent contractor, or a gig worker, here's what you need to know, and what you'll need to apply.

All small businesses qualify for the Payment Protection Program.

This includes:

Sole proprietors who report income and pay taxes on a Schedule C in your personal tax return.

Independent contractors who collect 1099-MISC forms.

Gig economy workers who take on-call jobs provided by companies such as Uber, Lyft, TaskRabbit, and Instacart.

The only stipulation is that your business was operational as of February 15, 2020. If you started your business after that date, you will not be eligible for this program.

What is the benefit of the Paycheck Protection Program?

This program is designed to help Americans stay employed and retain their salaries. As the name implies, this is a payroll-focused program. The payout you receive will be based on your average monthly payroll expense multiplied by 2.5. Under the PPP, your payroll expense can include your salary expenses, contractor expenses, and health insurance premiums.

The biggest perk of this program is that it can be almost entirely forgiven. You do not have to pay tax on any portion of the loan being forgiven, which essentially allows this program to function as a tax-free grant. If you keep your payroll expenses consistent to what they were before the COVID-19 pandemic for a further eight weeks, including the salary paid and the number of employees paid, you could be eligible to have those expenses forgiven from your loan amount, as well as certain other expenses such as rent and utilities.

The good news is that if you are self-employed (and you are your only employee), this should be easy to achieve!

However, it is important to note that you cannot receive both Unemployment Benefits and a PPP loan at the same time. You should consider the payout of each program to determine which is the best fit for you.

What if I don't use a payroll service?

If you own a business and do not give yourself a salary through a payroll service, you are likely still eligible for the Paycheck Protection Program—with one exception. Businesses that are structured as [C corporations](#) must use payroll to pay their owners, because the corporation is taxed separately from the individual. If you own a C corp and have not been paying yourself a salary through payroll, you will not have a salary covered through the PPP. This is because distributions or dividends from a C corp are not considered to be a salary or self-employment income.

Sole proprietors and the PPP

If you run a business on your own, your business is a sole proprietorship— even if you haven't formally let the IRS know. This means that your business income will be reported on a [Schedule C](#) within your personal tax return. As long as your business was operational prior to February 15 of this year, you can apply to the Paycheck Protection Program.

Your salary will be determined by your net profit. If you were operational in 2019 and have filed your 2019 taxes, this will be reported on line 31 of your Schedule C. If you have yet to file your 2019 taxes, but have bookkeeping for your business through 2019, this will be the Net Profit line on your [Income Statement](#).

If you don't have bookkeeping or a tax return, we strongly recommend that you [get caught up with your bookkeeping](#). Without a payroll service, bookkeeping is the best way to determine your salary as a sole proprietor.

Your monthly average payroll expense will be your annual net profit divided by 12. If your annual net profit is over \$100,000, you may only claim up to \$100,000 divided by 12. Don't forget that you can include any wages paid to contractors in this calculation! However, it should go without saying that this would not be considered a part of your salary after the loan has been paid out. To have that portion of the loan forgiven, you would need to continue paying your contractors.

Sole proprietors who are married

If you run a sole proprietorship informally with a spouse, you will only apply to the PPP once, and your spouse would not be considered to have a salary through the business unless he or she was paid as a contractor prior to February 15, 2020.

If you own more than one sole proprietorship, you may apply separately for each - but only if these sole proprietorships have separate EINs. The general rule of thumb is that you can apply separately for as many businesses you own that have separate identification numbers, or separate tax reportings. You may apply for the PPP once with your SSN as a sole proprietor, and then separately for any other businesses you own using their EINs.

Independent contractors and the PPP

If you work as an [independent contractor](#), you are by default considered to be a sole proprietor in the eyes of the IRS. This means your freelance income gets reported annually on a Schedule C within your personal tax return. You will have a Schedule C even if you pick up odd jobs or do freelance work, and this Schedule is based on the [1099-MISC](#) forms you collect from the companies or individuals who have hired you as a contractor.

Your salary is most easily determined by looking at the net profit listed on your Schedule C. If you have already filed your 2019 taxes, or prepared a 2019 return, this will be reported on line 31 of the Schedule C. If you have not filed your 2019 taxes but have accurate bookkeeping completed for all of 2019, this will be the Net Profit line on your Income Statement.

If you have neither of those things, your best estimation would come from adding all of your 1099-MISC income together. To find your monthly average, simply divide this amount by 12. If your annual net profit is over \$100,000, you may only claim up to \$100,000 divided by 12.

Proof of income

The lender will want to see all documents related to any wage, commission, income, or net earnings from self-employment that you have received. This means that you'll need to collect any earnings reports, pay stubs, or invoices you have.

Sole proprietorships will need to submit schedules from their 2019 tax return filed (or to be filed) showing income and expenses from the sole proprietorship.

Independent contractors will need to submit schedules from their 2019 tax return filed (or to be filed) as well as Form 1099-MISC from 2019.

All self-employed individuals will need to submit 2019 payroll tax filings reported to the Internal Revenue Service.

Rent, mortgage, and utilities expense

The Paycheck Protection Program funding can cover your office lease, rent, or mortgage interest, provided that you had it before February 15 2020. If you have a home office, you can claim a portion of the expenses (the percentage of your home that's used as a home office).

Again, collect any paid invoices, statements, lease agreements, or cancelled checks that will help prove you had these expenses.

When does the application open? When does it close?

Sole proprietorships can apply starting **April 3**.

Independent contractors and self-employed individuals can apply starting **April 10**.

You are encouraged to apply early as there is a funding cap for this program. You have until **June 30** to submit an application.

How do I apply?

You can apply for the Paycheck Protection Program through an SBA-backed lender (here are the [top 100 most active SBA lenders](#)).

Here is a [sample application form](#) from the SBA, indicating the type of information you'll be expected to provide on your application.