FAQs About Paycheck Protection Program SBA 7(a) Loans

for Independent Contractors*

1. Are individual contractors eligible for a loan under the Small Business Administration (SBA) Paycheck Protection Program (PPA)?

Yes, under the Small Business Administration (SBA) Paycheck Protection Program (PPA) individuals with self-employment income who file a Form 1040, Schedule C are eligible to apply for PPP SBA 7(a) loan if: (i) they were in operation on February 15, 2020; (ii) are an individual with self-employment income (such as an independent contractor or a sole proprietor); (iii) have a principal place of residence is in the United States; and (iv) filed or will file a Form 1040 Schedule C for 2019.

2. Until when will these loans be available?

PPP loans will be distributed on a first-come, first-served basis. While the loans will be available during the “covered period” which ends June 30, 2020, it is best to apply quickly. Loan applications can be submitted to lenders starting April 10, 2020.

NOTE: As of April 16th, the PPP loan pool of $349 was fully allocated. Please advocate with your elected officials for additional funds for PPP loans.

3. What is the covered period of the loans?

Loans are intended to cover expenses incurred during the eight-week period following the first disbursement of the loan (the “Covered Period”).

4. How do I calculate the amount I can borrow?

How you calculate your loan depends upon whether or not you employ other individuals.

If you have no employees, use the following methodology to calculate the maximum loan amount:

i. Take the net profit amount on line 31 of your 2019 IRS Form 1040 Schedule C (if you have not filed a 2019 return, fill it out and compute the value). If this amount is over $100,000, reduce it to $100,000. If this amount is zero or less, you are not eligible for a PPP loan.
ii. Calculate the average monthly net profit amount by dividing the amount from Step 1 by 12
iii. Multiple the average monthly net profit amount from Step 2 by 2.5
iv. Add the outstanding amount of any Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of and advance under the EIDL COVID-19 loan (because it does not have to be repaid).

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If you have employees, the following methodology should be used to calculate your maximum loan amount:

v. Step 1: Compute 2019 payroll by adding the following:
   a. Take the net profit amount on line 31 of your 2019 IRS Form 1040 Schedule C (if you have not filed a 2019 return, fill it out and compute the value), up to $100,000 annualized, if this amount is over $100,000, reduce it to $100,000. If this amount is zero, set this amount at zero;
   b. 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States computed using 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c – column 1) from each quarter plus any pre-tax employee contributions for health insurance or fringe benefits excluded from Taxable Medicare wages and tips; subtract any amounts paid to any individual employee in excess of $100,000 annualized and any amounts paid to any employee whose principal place of residence is outside the United States; and
   c. 2019 employer health insurance contributions (health insurance component of Form 1040 Schedule C line 14), retirement contributions (Form 1040 Schedule C line 19), and state and local taxes assessed on employee compensation (primarily under state laws commonly referred to as the State Unemployment Tax Act or SUTA from state quarterly wage reporting forms).

vi. Step 2: Calculate the average monthly amount (divide the amount from Step 1 by 12).

vii. Step 3: Multiply the average monthly amount from Step 2 by 2.5.

viii. Step 4: Add the outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

5. What will I need to present to the Lender with my loan application?

If you have no employees the following documentation is required to be submitted with your loan application:

Regardless of whether you have filed a 2019 tax return with the IRS, you must provide the 2019 Form 1040 Schedule C with your PPP loan application to substantiate the applied-for PPP loan amount a 2019 IRS Form 1099-MISC detailing nonemployee compensation received (box 7), invoice, bank statement, or book of record that establishes you are self-employed.

If you have employees the following documentation is required to be submitted with your loan application:

You must provide your 2019 Form 1040 Schedule C, Form 941 (or other tax forms or equivalent payroll processor records containing similar information) and state quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or equivalent payroll processor records, along with evidence of any retirement and health insurance contributions, if applicable. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation on February 15, 2020.

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6. What can the loan be used for?

The proceeds of a PPP loan are to be used for the following.

i. Owner compensation replacement, calculated based on 2019 net profits as described in FAQ 5 (v)(b) above.
ii. Employee payroll costs as defined in FAQ 5 (v)(b) and (c) above for employees whose principal place of residence is the United States.
iii. Mortgage interest payments (but not mortgage prepayments or principal payments) on any business mortgage obligation on real or personal property, business rent payments and business utility payments. You must have claimed or be entitled to claim a deduction for such expenses on your 2019 Form 1040 Schedule C for them to be a permissible use during the covered period.
iv. Interest payments on any other debt obligations that were incurred before February 15, 2020 (such amounts are not, however, eligible for PPP loan forgiveness).
v. Refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020. If you received an SBA EIDL loan from January 31, 2020 through April 3, 2020, you can apply for a PPP loan. If your EIDL loan was not used for payroll costs, it does not affect your eligibility for a PPP loan. If your EIDL was used for payroll costs, your PPP loan must be used to refinance your EIDL loan. Proceeds from any advance up to $10,000 on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan.

7. Are there restrictions on loan uses?

Yes, loan proceeds can only be used for those types of allowable uses for which the borrower made expenditures in 2019 (only those expenses listed on borrower’s 2019 Form 1040 Schedule C).

At least 75% of the loan amount must be used for payroll costs. For purposes of determining the percentage of use of proceeds for payroll costs (but not for forgiveness purposes), the amount of any refinanced EIDL will be included.

8. What is the interest rate on the loans?

The interest rate on the loans is 1.0%.

9. How do I estimate loan forgiveness?

The amount of loan forgiveness can be up to the full principal amount of the loan plus accrued interest. The actual amount of loan forgiveness will depend, in part, on the total amount spent over the covered period on:

i. payroll costs including salary, wages, and tips, up to $100,000 of annualized pay per employee (for eight weeks, a maximum of $15,385 per individual), as well as covered benefits for employees (but not owners), including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums);
ii. owner compensation replacement, calculated based on 2019 net profit as described in

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FAQ 5(v)(b) above, with forgiveness of such amounts limited to eight weeks’ worth (8/52) of 2019 net profit, but excluding any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of the Families First Coronavirus Response Act (FFCRA) (Public Law 116-127) or qualified family leave equivalent amount for which a credit is claimed under section 7004 of FFCRA;

iii. payments of interest on mortgage obligations on real or personal property incurred before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business mortgage payments);

iv. rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business rent payments); and

v. utility payments under service agreements dated before February 15, 2020 to the extent they are deductible on Form 1040 Schedule C (business utility payments).

NOTE: You can use JFNA’s loan calculator on www.JewishTogether.org, or use your bank’s loan calculator to estimate forgiveness using the parameters described above.

10. What documentation will I be required to submit to my lender with my request for loan forgiveness?

In addition to the borrower certification required by Section 1106(e)(3) of the Act, to substantiate your request for loan forgiveness, if you have employees, you should submit Form 941 and state quarterly wage unemployment insurance tax reporting forms or equivalent payroll processor records that best correspond to the covered period (with evidence of any retirement and health insurance contributions).

Whether or not you have employees, you must submit evidence of business rent, business mortgage interest payments on real or personal property, or business utility payments during the covered period if you used loan proceeds for those purposes. The 2019 Form 1040 Schedule C that was provided at the time of the PPP loan application must be used to determine the amount of net profit allocated to the owner for the eight-week covered period.

11. What are the certification requirements?

As part of your application, you will need to certify in good faith that......

- Current economic uncertainty makes the loan necessary to support your ongoing operation.
- The funds will be used to retain workers and maintain payroll or to make mortgage, lease, and utility payments.
- You have not and will not receive another loan under this program.
- You will provide to the lender documentation that verifies the number of full-time equivalent employees on payroll and the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight weeks after getting this loan.
- Loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities. Due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.
- All the information you provided in your application and in all supporting documents and forms is true and accurate. Knowingly making a false statement to get a loan under this program is punishable by law.

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You acknowledge that the lender will calculate the eligible loan amount using the tax documents you submitted. You affirm that the tax documents are identical to those you submitted to the IRS. And you also understand, acknowledge, and agree that the lender can share the tax information with the SBA’s authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of compliance with SBA Loan Program Requirements and all SBA reviews.

12. When do the loans have to be repaid?

The loans must be repaid in two years from the loan origination date, i.e., loan proceeds are made available. There will be an automatic deferment of payments for a period of 6 months from the loan origination date. However, interest will continue to accrue over this period. There are no prepayment penalties.

13. How do I apply for the PPP loan? Do I apply directly to the Small Business Administration? Where can I find the application?

The SBA is not handling the origination and processing of the PPP loans. The SBA sets guidelines for loans made by its partnering lenders, community development organizations, and micro-lending institutions.

The loan application can be found here. However, check with your lender to confirm whether they are using this form or an online portal.

14. Which banks can I approach for a loan under the Paycheck Protection Program?

The list of banks, credit unions and other lenders can be found here. It is very likely that the bank you do business with may have an SBA loan officer or will know about the program and other potential lenders. Federally insured depository institutions or federally-insured credit unions may also be participatory SBA lenders. In addition, other regulated lenders are expected apply to become qualified lenders under this program.

15. What criteria will be used to determine my organization’s credit risk?

Paycheck Protection Program loans are 100% government-backed loans, so banks will be able to lend money to most if not all borrowers. Borrowers do not need to demonstrate that they could not achieve credit elsewhere (as required for general SBA 7(a) loans).

Instead of determining repayment ability, which is not possible during this crisis, lenders will determine whether a business was operational on February 15, 2020, and had employees for whom it paid salaries and payroll taxes. Furthermore, the loan will not require collateral or a personal guarantee.

16. How long will it take to get the funds?

Under the CARES Act, the loan process will be streamlined, and SBA participating lenders will be authorized to expedite loan processing.

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17. What do I do if my own bank isn’t participating in the PPP loan program?

If your bank will not be participating, we suggest you contact your local Federation for help. Some have been able to leverage relationships with a local bank to help other organizations. Also, a member of your board or membership may be able to leverage banking relationships. We will continue to work to identify additional banking resources for those who need the help.

For additional information, please refer to this FAQ from the Treasury Department, updated on April 15, 2020.

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