



ECONOMIC
DEVELOPMENT
COLLABORATIVE

PAYCHECK PROTECTION PROGRAM (PPP) FOR SOLE PROPRIETORS 1-28-2021

The [Paycheck Protection Program \(PPP\)](#) is a [Small Business Administration \(SBA\)](#) loan that helps businesses, nonprofits, veteran organizations, tribal concerns, self-employed individuals, independent contractors and other eligible borrowers keep their workforce employed during the Coronavirus (COVID-19) crisis. This low-interest loan is potentially fully forgiven, provided that the applicant uses funds appropriately and applies for forgiveness.

PPP Round 1 opened July 6, 2020 and closed August 8, 2020 as outlined by the first [CARE's \(Coronavirus Aid, Relief, and Economic Security\) Act](#) of March 2020 and the Paycheck Protection Program Extension Act. [The Coronavirus Response and Relief Supplemental Appropriations Act 2021](#), part of the [Consolidated Appropriations Act, 2021 \(CAA 2021\)](#) of December 2020 reopened PPP, provided changes to PPP Round 1 and outlined the regulations for PPP Round 2. For more information on the recent updates to PPP view our EDC Guide to Paycheck Protection Program Updates 1-14-2021. [CLICK HERE](#)

Important Dates:

- **January 11, 2021:** Participating Community Financial Institutions will be able to accept [first draw](#) applications. See more information below.
- **January 13, 2021:** Participating Community Financial Institutions will be able to accept [second draw](#) applications. See more information below.
- **January 15, 2021:** Participating lenders with \$1 billion or less in assets will be able to accept [first](#) and [second draw](#) applications.
- **January 19, 2021:** All remaining participating lenders will be able to accept [first](#) and [second draw](#) applications.
- **March 31, 2021:** Loans are available through March 31, 2021 OR until all allocated funds are exhausted.

Communicate with your current lender to determine if they are offering PPP loans during round 2. If your lender is not accepting applications, **Montecito Bank & Trust is currently accepting applications from businesses based in Santa Barbara or Ventura counties for both First and Second Draw loans.** Visit MB&T's website for more information. [CLICK HERE](#)

PPP FOR SOLE PROPRIETORS

Some sole proprietors qualify for the Paycheck Protection Program under the concept of "owner compensation replacement." Even if you do not have employees or do not make a payroll, you may be eligible to apply for this economic relief loan. Common examples of sole proprietors include, but are not limited to, owners or operators of in-home daycare facilities, web designers, consultants and artisan chefs.

Sole proprietors eligible include:

- Single-person companies with no employees/Business owners of a single member LLC with no employees/Self-Employed Workers
- Freelancers, Independent Contractors and Gig Economy Workers

How to Calculate Your PPP Loan Amount:

The following methodology should be used to calculate the maximum amount that can be borrowed in a first draw loan if you are self-employed and have no employees, and your principal place of residence is in the United States, including if you are an independent contractor or operate a sole proprietorship (but not if you are a partner in a partnership):

1. Find your 2019 IRS Form 1040 Schedule C line 31 net profit amount. 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.
2. Calculate your average monthly net profit amount by dividing the amount from step 1 by 12.
3. Multiple your average monthly net profit (the amount from step 2) by 2.5.
4. If applicable, 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. Do not include the amount of any advance under an EIDL COVID-19 loan because it does not have to be repaid.

If you have filed a Schedule C for 2019, you must use it when applying for PPP. If your business started after June 30, 2019, you may use a Schedule C filled out with the required portions to compute the values listed above.

For more information on this methodology please review the documents:

How to Calculate First Draw PPP Loan Amounts and What Documentation to Provide [CLICK HERE](#)

Second Draw PPP Loans: How to Calculate Revenue Reduction and Maximum Loan Amounts [CLICK HERE](#)

Owner Compensation Replacement:

The "owner compensation replacement" concept allows sole proprietors to claim a portion of your loan to make up for your lost income due to COVID-19 since sole proprietors do not pay themselves through payroll.

How Much of Your PPP Can be Forgiven:

Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent by the borrower during the covered period following disbursement of the PPP loan.

- If you use an 8-week forgiveness period, you can claim 8 weeks' worth of "owner compensation replacement."
 - You can calculate this amount by:
 - Calculate your average weekly net profit amount by dividing the amount from step 1 above by 52.
 - Multiply your average weekly net profit amount by 8.
 - The maximum amount of "owner compensation replacement" that can be claimed for an 8-week forgiveness period is \$15,385.
 - Any remaining funds must be spent on non-income related expenses, such as utilities, rent and mortgage interest payments that are used for your business.

- If you don't have any eligible business expenses you can use the PPP funds for, the remaining balance of the loan will need to be repaid according to the PPP loan terms (at 1% interest for 5 years). There is no prepayment penalty if you wish to pay it all off early.
 - If you claim 8 weeks of "owner compensation replacement," then you will need to report the net profit over the 8-week covered period.
- If you use a 24-week forgiveness period, you can claim 2.5 months' worth of "owner compensation replacement."
 - You can calculate this amount by:
 - Calculate your average monthly net profit amount by dividing the amount from step 1 above by 12.
 - Multiply your average weekly net profit amount by 2.5.
 - Assuming your PPP loan did not include other payroll expenses, this amount would be equal to your entire PPP loan.
 - The maximum amount of "owner compensation replacement" that can be claimed for a 24-week forgiveness period is \$20,833.
 - If you claim 2.5 months of "owner compensation replacement," then you will need to report 10 weeks' worth of net profit over the entire 24 weeks.
- The first round of PPP in 2020 required borrowers to select either an 8-week or 24-week forgiveness period. The second round of PPP, January 11, 2021 through March 31, 2021, allows first and second draw borrowers to select a forgiveness period *between* 8 and 24 weeks.
 - If you receive a first or second draw PPP loan during the second round and select an 8-week forgiveness period, you can claim 8 weeks' worth of "owner compensation replacement" using the 8-week calculation above.
 - If you receive a first or second draw PPP loan during the second round and select a forgiveness period of 9 weeks or more, you can claim 2.5 months' worth of "owner compensation replacement" using the 2.5-month calculation above.

For more information review the SBA's FAQs on PPP Loan Forgiveness. [CLICK HERE](#)

How to Apply for Forgiveness:

To apply for forgiveness, you will work with your lender to complete the simplified forgiveness application known as the "EZ Form."

- When completing your forgiveness application, you will be required to provide your 2019 Schedule C to be able to claim the "owner compensation replacement" amount for forgiveness.
- If you use any remaining funds on eligible non-income related expenses, you will need to provide documentation for your expenditures.

Looking for one-on-one technical business consulting?

EDC SBDC Financial Advisors are available to answer questions and help you navigate today's complex financial questions. The Economic Development Collaborative hosts the Small Business Development Center and is funded in part through a cooperative agreement with the U.S. Small Business Administration. Signing up as a client takes just a few minutes and provides you lifetime access to all of our no-cost services. Call the EDC to set up your no-cost appointment at 805.409.9159 (ENGLISH) or 805.309.5874 (SPANISH) or visit our website. [CLICK HERE](#)

Visit the Economic Development Collaborative's COVID-19 Business Resources page to access more information, resources and guides to help your business. [CLICK HERE](#)