

New PPP Guidance for Schedule C Filers

By Bruce L. Blasnik, CPA, CGMA, Partner

The Small Business Administration (SBA) issued an Interim Final Rule (IFR), on Wednesday evening, that changes the way Schedule C filers calculate their maximum loan amount for both first draw and second draw PPP loans. This IFR will benefit Schedule C filers with less than \$100,000 of net income (as reflected on line 31 of Schedule C).

Here's a summary of the changes.

Maximum Loan Amount Calculation

Schedule C filers can now calculate their maximum loan amount using gross income (Schedule C, line 7) instead of net income (line 31). However, the maximum owner compensation amount on which a PPP loan may be calculated is still \$100,000. Unfortunately (and perhaps unfairly), Schedule C filers whose loans have already been approved are not eligible for an increase. **(Remember, first or second draw loan applications must be submitted no later than March 31, 2021 and many lenders will impose earlier deadlines.)**

Employee Payroll Costs

Consistent with the rules prior to the IFR, Schedule C filers with employees can include employee payroll costs (cash compensation plus health and retirement benefits and state employer level payroll taxes) in the base for their loan amount. To avoid the double-counting of employee payroll costs, Schedule C filers with employees that wish to use the newly allowed method for computing their maximum loan amount must reduce Schedule C, line 7, by the amounts on Schedule C, lines 14, 19 and 26 (employee wages and benefits) in computing their owner compensation amount (again, capped at \$100,000).

Necessity Safe Harbor Eliminated

To reduce the risk of waste, fraud or abuse, for certain Schedule C filers, the SBA is eliminating the safe harbor, which deems first draw borrowers with loans (together with their affiliates) of more than \$2 million to have automatically satisfied the certification of need. First draw Schedule C filers, with loans over \$150,000 taking advantage of the newly available loan computation may be subject to review by SBA with regard to their need for the loan. (The safe harbor regarding need is not available to PPP second draw borrowers. The SBA may review the certification of need of any and all PPP second draw borrowers.)

Contact Us

If you need assistance in computing your first or second draw loan amount, or with any other matters related to the Paycheck Protection Program, Employee Retention Credit or other business relief programs, please reach out to your PKF O'Connor Davies client service representative or email us at LoanForgiveness@PKFOD.com.

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