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# Cornhusker Economics

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## Payroll Protection Program Increases Eligibility

As the COVID-19 pandemic continues to impact businesses across the country, the Small Business Administration (SBA) has issued new guidelines for the Payroll Protection Program (PPP) in 2021. These guidelines increase the eligibility rules for self-employed, sole proprietors and 1099 workers, including agricultural producers, that allow them to apply and access the PPP Loan funds.

The Consolidated Appropriations Act for 2021 was signed into law by President Trump on December 27, 2020. It included the Economic Aid Act to Hard-Hit Small Businesses, Nonprofits and Venues Act (EAA). EAA is a \$284 billion expansion of PPP to provide additional forgivable loans for first time PPP borrowers ([First Draw Loans](#)) and a second round of funding ([Second Draw Loans](#)) for existing borrowers who suffered considerable financial hardship. First and Second Draw Loans may be used to help fund payroll costs, mortgage interest, rent, utilities, COVID-19 related worker protection costs and property damage caused by looting or vandalism during 2020, in addition to other supplier costs. At least 60 percent of the loan needs to be used for payroll costs.

On January 11, the SBA reopened applications for businesses to apply for the PPP Loans. Application deadline for both loan funds is March 31, 2021.

### First Draw Eligible Businesses

The Paycheck Protection Program is available to all SBA designated small businesses that were in operation on February 15, 2020, and had employees for which salaries and payroll taxes were paid or had paid independent contractors as reported on 1099-Misc, or were eligible as a self-employed individual, independent contractor or sole proprietor with no employees. A tax-exempt non-profit organization is defined as a 501(c)(3), a tax-exempt veteran organization 501(c)(19), a Tribal busi-

ness (31(b)(2)(C)) - all with less than 500 employees are eligible for application. A housing cooperative 501(c)(6) and specific news organizations may also apply. If an existing PPP borrower did not receive loan forgiveness by December 27, 2020, they may reapply for First Draw Loans if (1) some or all previous PPP loan funds were returned and (2) they did not previously accept the full amount for which they were eligible under their first PPP approved loan.

### Self-employed and Partnership Eligibility

Individuals who filed an IRS Form 1040, Schedule C for 2019 or 2020, have proof of the business operating on February 15, 2020, and have the United States as the principal place of residence may apply for a PPP Loan. If an individual is a partner in a partnership, that person cannot apply as a self-employed individual. They can, however, submit self-employment income of the active partners, listed under payroll costs for the partnership and submit the application from the Partnership. Seasonal businesses are also eligible to apply for a PPP loan if the business was in operation for any 12-week period between February 15, 2019, and February 15, 2020.

Non-Ag, self-employed individuals with no employees will determine maximum PPP First Draw Loan amount based on the 2019 or 2020 IRS Form 1040 Schedule C, line 31 net profit amount.

**Step 1:** If the amount on line 31, net profit is over \$100,000 reduce that amount to \$100,000. If below \$100,000 use actual net profit amount. If line 31 shows zero or less, business is not eligible for a PPP loan.

**Step 2:** Divide the net profit amount by 12 to get the average monthly net profit.

**Step 3:** Multiply the average monthly net profit by 2.5 – this is the maximum loan amount.

Example 1: Net profit amount is at the maximum of \$100,000:

$$\$100,000/12 = 8,333 \times 2.5 = \$20,833, \text{ the maximum loan amount.}$$

Example 2: Net profit amount is \$60,000:

$$\$60,000/12 = 5,000 \times 2.5 = \$12,500, \text{ the maximum loan amount.}$$

**Step 4:** If there is any outstanding amount of an Economic Injury Disaster Loan (EIDL) that was received between January 31 and April 3, 2020, and there are plans to refinance, this amount will need to be added to that amount calculated in Step 3.

*Required documentation:* Provide the 2019 or 2020 1040 Schedule C with your PPP loan application and a 2019 or 2020 IRS Form 1099-Misc or bank statement that establishes yourself as self-employed and in business on February 15, 2020.

*Farmers and Ranchers with no employees* will use the same formula above with the exception that loan determination is based on the 2019 or 2020 IRS 1040 Schedule F line 9 gross income.

**Step 1:** Determine gross income on Schedule F line 9. If this amount is over \$100,000 the gross income will be reduced to \$100,000 for use in the calculation. If lower than \$100,000 use actual gross income.

**Step 2:** Divide the gross income amount by 12 to get the average monthly gross income.

**Step 3:** Multiply the average monthly gross income by 2.5. This will be the maximum loan amount.

**Step 4:** Add any outstanding EIDL loan that will be refinanced to amount calculated in Step 3.

*Required documentation:* Provide the 2019 or 2020 Schedule F with your PPP loan application and a bank statement that establishes yourself as self-employed and in business on February 15, 2020.

*Businesses with employees*, formulas will be calculated based on qualifying salaries and payroll costs. Work with an SBA-approved lender or any participating federally insured depository institution, federally insured credit union, or Farm Credit System for applicable paperwork and to process the application. First, contact your primary bank to determine their SBA status or visit SBA online for a list of Nebraska SBA [approved lenders](#).

### Loan Forgiveness Application

Borrowers that received a PPP Loan will have up to 10 months after the end of their loan forgiveness covered

period to submit a loan forgiveness application. If the borrower fails to submit a forgiveness application, the borrower will begin paying principal and interest after that period. The terms of PPP Loans are 5 years at 1 percent interest, calculated on a non-compounding, non-adjustable basis. Documentation will be required showing use of loan fund for payroll and other approved costs.

The loan forgiveness period is determined by the date the lender disburses the PPP loan and either 8 weeks or 24 weeks following the date of disbursement.

This example is provided by [U.S. Treasury, Interim final rule](#):

“If a borrower’s PPP loan is disbursed on January 25, 2021, the 24-week period ends on July 12, 2021. If the borrower does not submit a loan forgiveness application to its lender by May 12, 2022, the borrower must begin making payments on or after May 12, 2022.”

To learn more about the Payroll Protection Program, contact your local funder, [Nebraska Business Development Center](#) or the [Small Business Administration \(SBA\)](#) for the latest information and application assistance.

### Sources:

U.S. Small Business Administration, <https://www.sba.gov>

Department of the Treasury, RIN1505-AC74, [Business Loan Program Temporary Changes; Paycheck Protection Program as Amended by Economic Aid Act](#)

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