

New Rules for Sole Proprietors, and Time is Running Out!



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The deadline for Paycheck Protection Program (PPP) loans is March 31, 2021, and many lenders will quit accepting applications as early as next week to process what is in their pipeline. For these reasons, it is imperative that any business or organization that qualifies for a PPP loan, first or second draw, apply immediately. While it is widely believed that Congress will extend the PPP deadline, you know what they say about putting all your eggs in one basket.

New Maximum Loan Calculation Based on Gross Income for Schedule C Filers

The SBA recently issued a new interim final rule that may increase the PPP loan amount available to sole proprietors that file a Form 1040, Schedule C. For loans approved after March 3, 2021, Schedule C filers may now calculate their loan amount based on either line 7 gross income or line 31 net profit. New loan application forms for [first](#) and [second](#) draw loans accompany the change.

For a limited liability company with only one member that files Schedule C, the member is considered a sole proprietor and the Applicant's owner. As with all PPP loans, owner compensation cannot exceed \$20,833 unless the business has a NAICS code beginning with 72, in which case the limitation is \$29,167.

Borrowers must certify that the uncertainty of current economic conditions makes the loan request necessary to support the business's ongoing operations. Previously, the SBA created a safe harbor providing that any PPP borrower with an original loan amount less than \$2 million will be deemed to have made the required necessity certification in good faith. That safe harbor does **not** apply to sole proprietors with loans of more than \$150,000 using the new gross income method of calculating the loan amount.

More Congressional Action?

Because the new gross income approach is available only for loans processed after March 3, 2021, previous Schedule C borrowers cannot obtain increased loan amounts. Business associations and lenders across the country are urging Congress to remedy the uneven treatment of previous borrowers through legislation. Many of those same groups are also urging Congress to extend the deadline for PPP loans by 60 to 90 days.

For more information regarding these enhancements to the PPP loan program:

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