



# Guide to SBA Loans for Self-Employed Workers

While some of the rules for these programs are clearly written, others require interpretation until the Treasury Department releases further guidance. The following is accurate to the best of my knowledge as of April 8, 2020. To set up a time to discuss your options, feel free to contact me at [ben@freelancefp.com](mailto:ben@freelancefp.com).

## Paycheck Protection Program

### How much you can borrow

- The maximum loan amount is 2.5 times your average monthly payroll cost
- If you're taxed as a sole proprietor, this is your net self-employment income over the past 12 months divided by 12 then multiplied by 2.5. W-2 income you earned is not included in this calculation.
- If your business is taxed as an S corporation, use your W-2 wages from the past 12 months divided by 12 then multiplied by 2.5
- If your income over the past 12 months was more than \$100,000, use \$20,833 as your average monthly income
- Check which time period your lender requires – some ask for calendar year 2019 while some use April 1, 2019-March 31, 2020

	Example 1	Example 2	Example 3
<b>Business type</b>	Independent contractor	S corporation owner/employee, no other employees	Single member LLC, taxed as sole proprietor
<b>Income (last 12 months)</b>	Net self-employment income: \$60,000	W-2 income: \$75,000	Net self-employment income: \$125,000 <i>Use \$100,000 maximum)</i>
<b>Average monthly income</b>	\$5,000	\$6,250	\$8,333
<b>Maximum loan amount</b>	\$12,500	\$15,625	\$20,833



## Eligible uses of the loan

- Payroll
  - Must use at least 75% of the loan proceeds on payroll costs
  - For self-employed people with no employees, this covers “owner compensation replacement”, i.e. paying yourself
- Rent/Mortgage/Utilities
  - May only be used up to 25% of loan proceeds
  - Only include the expenses paid directly by your business. You may not use this for the portion of your home rent/mortgage/utilities allocated for business use of your home on your tax return
  - Only allowable for expenses that you took a tax deduction for in 2019
- Make sure you keep good records of how you pay yourself or your other eligible expenses.

## Loan terms and forgiveness

- PPP loans have a two-year term and a 1% annual interest rate
- If the loan is not forgiven, payments begin six months after the loan date
- If you use the loan for the above eligible purposes for the 8 weeks following the loan, the principle and accrued interest can be completely forgiven

## Where to apply

- Banks, credit unions, co-ops, and any other SBA-approved lender
- Most banks are only accepting applications from existing customers – if you have a business checking account and/or credit card, start there
- Smaller local institutions and online banks are other potential sources
- Sample application form:  
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>

## Important dates

- Businesses (LLCs, S corporations, sole proprietors) with employees: April 3
- Independent contractors with no employees: April 10
- Program runs through June 30, 2020, but funding is limited and expected to be quickly expended – **apply soon if you qualify!**



## Economic Injury Disaster Loans + Emergency Advance

*Note: as of 4/16/2020 the SBA is no longer accepting EIDL applications. This will be updated if any more developments occur.*

### How much you can borrow

- Up to \$2 million depending on the extent of your economic injury and your ability to pay
- Up to \$10,000 available as an “emergency advance” that requires no repayment (limited to \$1,000 per employee). This grant can be received even if you are denied for the loan

### Eligible uses of the loan

- Ordinary and necessary operating expenses
- Financial obligations (i.e. debts) that you would have been able to pay had the disaster not occurred

### Loan terms

- Interest rate: 3.75%
- Can be repaid over up to 30 years (terms depend on the individual borrower)
- Payments deferred for 1 year after the loan date
- No collateral is required for loans under \$25,000

### Where to apply

Directly from SBA: <https://covid19relief.sba.gov/>



## Other questions

### **Can I apply for both of these loans?**

Yes, but you need to use the funds in different ways. For instance, if you use the PPP loan to pay yourself, use the EIDL to cover operating expenses. Make sure to keep very good records of your expenditures to prove later on that you used both loans appropriately.

If you receive both a PPP loan and an emergency advance for the EIDL, the amount of the advance will be subtracted from the forgivable amount of your PPP loan.

### **Can I receive an SBA loan and still be eligible for unemployment?**

No. If you are still not working in 8 weeks you may be eligible to apply then.

If you earned a lower self-employment income over the last year you may receive a higher benefit from unemployment. Likewise, people with more self-employment income may receive more from the PPP loan. Unemployment income varies by state but compare the numbers between the two options before making a decision.

### **If I apply for an SBA loan and unemployment at the same time, can I turn down the loan to remain eligible for unemployment?**

If you are worried about being ineligible to file for unemployment, you can file an unemployment claim and apply for an SBA loan. If you are approved for the loan you are not obligated to take it.

## More information

[U.S. Treasury: Assistance for Small Businesses](#)

[Small Business Administration: Coronavirus Small Business Guidance & Loan Resources](#)

[U.S. Chamber of Commerce: Coronavirus Emergency Loans Small Business Guide and Checklist](#)