

THE PAYCHECK PROTECTION PROGRAM (PPP) Q&A GUIDE FOR FARMERS AND RANCHERS

Updated April 15, 2020

**Please note the Small Business Administration (SBA) has changed the application requirements for the Paycheck Protection Program (PPP) several times. This information is based on SBA guidance as of April 15, 2020. Individual eligibility for PPP should be verified with your SBA approved lender. Please note program loans are subject to available funding.*

HOW DOES THE PAYCHECK PROTECTION PROGRAM AFFECT FARMERS AND RANCHERS?

The \$350 billion Paycheck Protection Program (PPP) is designed to support small businesses -- which include farm and ranch businesses -- with immediate cash flow during the COVID-19 pandemic quarantine.

ARE FARM AND RANCH ENTITIES ELIGIBLE FOR PPP EVEN IF THEY DO NOT HAVE EMPLOYEES ON PAYROLL?

Yes. As a farm or ranch business -- which are likely organized as a C or S Corp owner, 1065 partnership owner, sole proprietor, or an independent contractor -- you can qualify for a PPP loan. The following entities are eligible for the PPP:

- **Sole proprietor farmers and ranchers** who report income and pay taxes on a Schedule F in your personal tax return. **Independent contractors** who collect 1099-MISC forms.
- **C&S Corporation owners** without employees, other than themselves, and who pay themselves salary.
- **1065 partnership owners** who have no employees other than the owners.

The only stipulation is that your business was operational as of February 15, 2020. If you started your business after that date, you will not be eligible for this program.

HOW DOES THE PAYCHECK PROTECTION PROGRAM WORK?

The PPP is designed to help Americans stay employed and retain their salaries. As implied, this is a payroll- focused program, and the cash support is based on your average monthly payroll expense multiplied by 2.5. Your average monthly payroll can be determined from the calendar year 2019 or the previous 12 months from the date of the application. This includes your salary expenses and health insurance premiums.

The main bonus of the PPP loan is that it can be almost entirely forgiven, and you will not have a tax liability for any portion of the loan that is forgiven, which essentially allows this program to function as a tax-free grant if you keep your payroll expenses similar to what they were before the pandemic for eight weeks, including employee's salaries and number of employees paid, you can have those expenses forgiven from your loan amount, as well as certain other expenses such as rent and utilities. We

expect more guidance from SBA on what exactly qualifies for the loan forgiveness portion of the program for the self-employed.

It is not about what you made as a farm or ranch business, it is about what you paid that was subject to payroll or self-employment taxes that will be eligible for the loan forgiveness or grant. **If you are a self-employed farm and ranch (and you are your only employee), this should not be a problem.**

HOW ARE C CORPORATIONS TREATED UNDER THE PAYCHECK PROTECTION PROGRAM?

You are qualified under the PPP if you pay yourself as a W-2 employee and you are involved in the “day-to-day operation” of your business. Owner’s draw or dividends are not a salary for this program.

HOW ARE S CORPORATIONS TREATED UNDER THE PAYCHECK PROTECTION PROGRAM?

If you are an S Corporation owner and have been paying yourself a reasonable salary through payroll you would apply for a PPP based on your average monthly W2 salary times 2.5. **Distributions or dividends from a corporation are not considered to be a salary.** Also, payments made to contractors aren’t considered payroll and aren’t eligible under the PPP. Only include money that has been subject to payroll tax or self-employment tax.

HOW DO 1065 PARTNERSHIPS APPLY FOR THE PAYCHECK PROTECTION PROGRAM?

If you are a 1065 partnership, the partnership itself would apply to the Paycheck Protection Program similar to a sole proprietor using your net income to calculate your loan amount. Use your total net income payment for 2019 which would be line 14 on your K-1 schedules (not to exceed \$100k) and divide that by 12. You take that amount and multiple it by 2.5, and that is your loan payment amount.

SOLE PROPRIETORS AND THE PPP

If you are a sole proprietor and report your income through a Schedule F your salary is determined by your net profit on that schedule. If you were operational in 2019 and have filed your 2019 taxes, this will be reported on line 34 of your Schedule F. If you have yet to file your 2019 taxes, but have bookkeeping for your business through 2019, this will be the Net Profit line on your income statement.

Your monthly average payroll expense will be your annual net profit divided by 12. If your annual net profit is over \$100,000, you may only claim up to \$100,000 divided by 12. Your loan amount will be that amount times 2.5.

SOLE PROPRIETORS WHO ARE MARRIED

If you run a sole proprietorship with a spouse, you will only apply to the PPP once, and your spouse would not be considered to have a salary through the business unless he or she was paid as a contractor prior to February 15, 2020.

If you own more than one sole proprietorship, you have to apply separately for each. But only if these sole proprietorships have separate Employer Identification Numbers (EINs) and existed before February 15, 2020. You can apply separately for as many businesses you own, that have separate identification numbers, or separate tax reporting. You may apply for the PPP once with your Social Security Number (SSN) as a sole proprietor, and then separately for any other businesses you own using their Employer Identification Numbers (EINs).

HOW DO INDEPENDENT CONTRACTORS (1099) APPLY FOR THE PPP?

If you work as an independent contractor, you are by default considered to be a sole proprietor in the eyes of the IRS. This means your income is reported on the Schedule C of your 1040, and you will use your 1099-MISC to determine your salary and loan amount.

You would divide your net salary (anything below \$100,000) by 12 and multiply that number by 2.5 to get your loan amount. Remember to use your net salary, meaning income after expenses.

WHAT FINANCIAL DOCUMENTS DO SELF-EMPLOYED PEOPLE NEED TO APPLY FOR A PPP LOAN?

Your lender will want to see all documents related to any wage, commission, income, or net earnings from self-employment.

Sole proprietorships will need to submit schedules from their 2019 tax return led (or to be filed) showing income and expenses from the sole proprietorship which would be the Schedule F for farmers and ranchers.

Independent contractors will need to submit schedules from their 2019 tax return filed (or to be filed) as well as Form 1099-MISC from 2019.

C and S Corporations (1120 and 1120s) will need to submit 2019 payroll tax filings (W2s) and form 943 reported to the Internal Revenue Service.

1065 partnerships will need to submit the Schedule K-1 (use line 14) for each partner.

ASIDE FROM PAYROLL, WHAT ELSE DOES THE PPP COVER?

The Paycheck Protection Program funding can cover your office lease, rent, or mortgage interest, provided that you had it before February 15, 2020 and provided that these items do not add up to more than 25 percent of the loan amount. If you have a home office, you can claim a portion of the expenses (the percentage of your home that's used as a home office).

Again, collect any paid invoices, statements, lease agreements, or cancelled checks that will help prove you had these expenses.

WHEN DOES THE APPLICATION OPEN? WHEN DOES IT CLOSE?

Sole proprietorships, self-employed, and independent contractors can already apply today as the program started on April 3. You are encouraged to apply as soon as possible. You have until June 30 to submit an application.

WHAT INFORMATION AND SUPPORTING DOCUMENTATIONS SHOULD YOU HAVE TO PREPARE FOR YOUR APPLICATION FOR THE PPP (EACH LENDER ASKS FOR VARIOUS DOCUMENTS BUT BELOW IS A COMMON LIST THAT IS BEING USED)?

- Date your business started
- Annual revenue
- Business mailing address
- May need NAICS Code for agriculture production which is 115115
- Documentation that demonstrates:
 - You had employees for whom you paid salaries and payroll taxes on February 15, 2020
 - The amount of average monthly payroll costs for calendar year 2019
 - The amount paid for health care benefits, retirement benefits, and/or severance payments
- Sole proprietors and self-employed individuals must submit documentation to establish eligibility, such as:
 - Payroll processor records
 - Payroll tax lings
 - Form 1099-MISC
 - Income and expenses from a sole proprietorship. Sole proprietors must include IRS Form 1040 Schedule C or F