



# PAYCHECK PROTECTION PROGRAM (PPP)

Created by [Shields Legal Group](#)  
For Independent Contractors

# Paycheck Protection Program (PPP)

## Information for Independent Contractors

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### Purpose of This Document

Provide an educational overview of the program to help sift through unorganized publicly available information

Clarify compensation qualifications and what documentation may be required

Recommend next steps before and after receiving a PPP loan

Serve as a channel for future Program updates

### Further Clarification Required

The publicly available **application form** is tailored towards corporate borrowers. We are awaiting a revised application for Independent Contractors.

**Loan forgiveness criteria** is currently tailored towards corporate borrowers. We are awaiting new guidance for Independent Contractors.

Other **general updates** as they relate to Independent Contractors.

*As new information is released, we will continue to update and redistribute this document.*

# Paycheck Protection Program (PPP)

## High-level Explanation of the Program for Independent Contractors

### Overview

- Meant to help independent contractors impacted by COVID-19 and the resulting economic downturn to fund 8-weeks of income
- Amending the existing SBA 7(a) loan channel, this newly created lending program certified up to \$349 billion in funding
- Loan amounts are tied directly to income
- Up to 100% of the loan qualifies for forgiveness if you meet specific criteria

### Qualifying Criteria *(additional criteria required, as defined by Borrower Application)*

- |                                 |   |   |
|---------------------------------|---|---|
| Only one is required to qualify | 1 | Employing less than 500 employees   |
|                                 | 2 | Sole-proprietor or independent contractor <i>Focus of Document</i>                    |
|                                 | 3 | NAICS code beginning with '72' and has less than 500 employees at any single location |
| ALL must apply                  | 4 | Receives Financial assistance under Section 301                                       |
|                                 | 5 | Franchise Identified Code established with the SBIC                                   |
|                                 | 6 | Economic uncertainty requires these funds   |
|                                 | 7 | Does not fail <a href="#">affiliation determinations of the SBA</a>                   |
|                                 | 8 | Business has been negatively affected by COVID-19                                     |
|                                 | 9 | Independent Contractor has not applied for a duplicate loan                           |

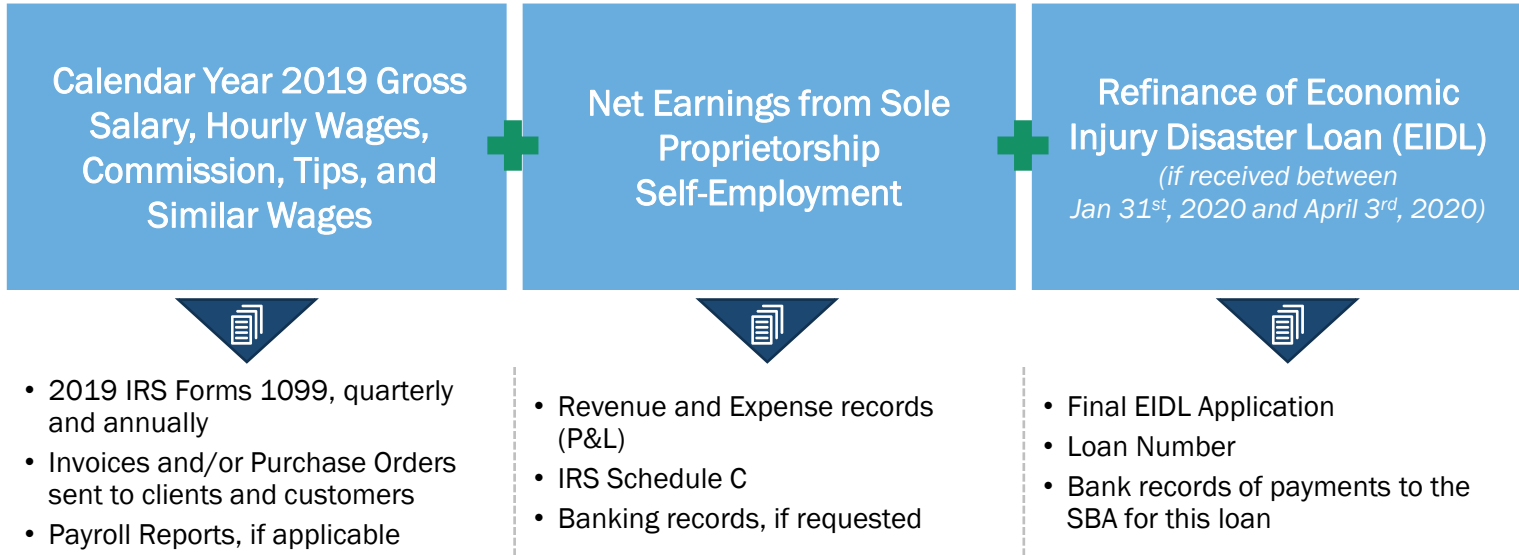
### Key Loan Details

- Total allowable loan amount calculated as 2.5x average monthly 1099 income from calendar year 2019
  - If you receive 1099 income from multiple sources, 2019 income will be cumulative across all sources
  - Cumulative compensation above \$100,000 per year is capped at \$100,000 per year, meaning the **maximum loan amount is \$20,833.33**
- Does not require proof of inability to obtain credit elsewhere
- Do not sign a Personal Guarantee, as it is not required
- Payment deferment of principal, interest, and fees for 6 months
- For amounts not forgiven: interest rate = 1% and maturity = 2 years
  - Forgiveness process for Independent Contractors is TBD, but to mitigate risk, follow Recommended Implementation Practices on page 5

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## Calculating and Documenting Compensation

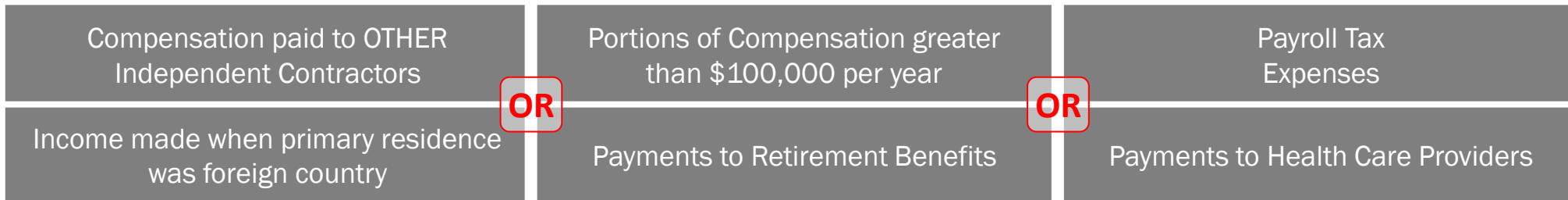
### Your PPP Loan Amount MAY Include:



### Example Loan Calculations:

Line Item	Example 1	Example 2
+ 2019 Independent Contractor Compensation (Form 1099)	\$45,000	\$120,000 <i>(capped at \$100,000)</i>
÷ Months spent as Independent Contractor during 2019	9 months	12 months
= Average Monthly Compensation	\$5,000	\$8,333
x Compensation Multiplier	250%	250%
+ <u>EIDL</u> received between Jan 31 <sup>st</sup> and April 3 <sup>rd</sup> , 2020	\$0	\$2,500
<b>= TOTAL</b>	<b>\$12,500</b>	<b>\$23,333</b>

### MAY NOT INCLUDE:



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## Recommended Implementation Practices

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### How should I receive and track the expenses of PPP Funds?

- We suggest opening one NEW account with your PPP lending bank (only if they are an FDIC-insured institution):
  - 1) Savings Account: receive the loan proceeds here to keep them separate from personal or other accounts.
    - Only transfer funds from NEW Savings Account to pay for qualifying expenses.
    - This helps protect the entirety of your PPP funds and individuals who have your account number from checks, wire transfers, etc.

### Who should process my loan application?

- Due to a multitude of reporting and verification requirements places on lending institutions, the fastest loan provider will likely be your existing banking institution. Talk with them to ensure they are offering this service.

### How should I prepare for loan forgiveness?

- We are awaiting final, detailed guidance regarding loan forgiveness qualifications for Independent Contractors. In the meantime, there are a few preparatory actions that may aid the forgiveness process:
  - Prepare a plan to disburse all funds within the 8-week period immediately following closing.
  - Write detailed notes of all transactions from the Concentration and Transaction Accounts
  - Gather all documentation related to the use of funds.

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## Frequently Asked Questions

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### I am applying for myself personally and not for any business. How do I complete the application?

- The SBA has not clarified this question, leaving it up to the Lenders. Work with your bank to determine the best path forward.

### Can I collect both Unemployment Insurance and Paycheck Protection Program loan?

- You cannot receive money from both programs at the same time. You should consider the payout of both programs before determining the best path forward.

### What process will Lenders follow to underwrite these loans?

- Confirm receipt of borrower certifications in the PPP application form.
- Confirm receipt of information demonstrating that a borrower had employees.
- Confirm the dollar amount of average monthly payroll by reviewing payroll documentation submitted with the application.

### When will I begin paying for my PPP loan, should it not be forgiven?

- Borrower will not make payments for 6 months following the receipt of funds. Interest will continue to accrue on the loan.
  - Accrued and unpaid interest can be forgiven.
- The interest rate will be 1% for all loans.

### How will Lenders verify loan forgiveness?

- Lenders don't need to conduct verification if the borrower submits documentation and attests to the forgiveness.
  - Lenders will be held harmless if the above criteria is met.

### I pleaded guilty to a felony a very long time ago. Am I still eligible for the Program?

- Yes. Borrowers are only ineligible if he/she is presently incarcerated/probation/parole, subject to formal criminal charges in any jurisdiction, or convicted/pleaded guilty for any felony within the last five years.

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## Loan Forgiveness Requirements

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We are awaiting final, detailed guidance regarding loan forgiveness qualifications for Independent Contractors

### Expected Forgiveness Criteria

- Loan becomes forgivable when the borrower spends all funds during the 8-week period after closing on qualifying expenses:
  - Payroll Costs
  - Mortgage interest (not principal) OR Rent in a residential lease
  - Utility (water, electricity, etc.) payments
- Forgiveness amount cannot be greater than the original principal plus accrued interest.
- Funds used for other purposes will be treated as traditional SBA debt



Your business. Our approach. Your business is our priority.

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## GET IN TOUCH

We work with you to develop the right legal strategy for your business. Engage us with confidence – contact us today.

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