April 17, 2020

Sample problem for Paycheck Protection Program (PPP)

Husband & Wife file a joint return for 2019. There are no wages paid and all income is farm related. Husband’s net schedule F income (line 34) is $175,000. Wife has a separate farming operation with a net schedule F income (line 34) of $71,000. On their 2019 joint return, they also have income on Form 4797, line 18B of $90,000. They each have a SEP retirement account that they fund a total of $44,000 and self-employed health insurance of $24,000.

In this case, there are two business, so they would file two PPP loan applications. The husband’s estimated loan amount for his business would be $20,833 ($100,000 / 12 times 2.5). Income is limited to $100,000. The wife’s business would have an estimated loan amount of $14,792 ($71,000 / 12 times 2.5).

For loan forgiveness, it is 8/52 times the 2019 net income amount (limited to $100,000) plus other payroll, mortgage interest, utilities and rent paid in the 8 week period from when the loan proceeds are disbursed. However mortgage interest, utilities and rent is limited to 25% of the total loan forgiveness amount. In this case, let’s assume there is no mortgage interest, utilities or rent paid in the 8 week period. So the husband’s forgiveness would be $15,385 ($100,000 x 8/52) and the wife’s forgiveness would be $10,923 ($71,000 x 8/52).

Here are some common questions:

1. Can we assume that since the guidance only talks about schedule C income we can apply this to Schedule F income? From the guidance we have seen, we think so, however, some lending institutions do not and it is their decision since they have to administer the loans.

2. Is there a $100,000 limit on an individual when figuring income for the PPP program? Yes there is a $100,000 limit on the net income as well as per employee if there are cash wages paid.

3. How are utilities handled for loan forgiveness since the majority of this happens in the fall, rather than the 8 week period after the loan is dispersed? You can only count utilities incurred and paid during the 8 week period. The 8/52 of net income takes into account the cost not happening equally throughout the year. Utilities (in combination with mortgage interest and rent paid) is limited to 25% of the loan forgiveness amount.
4. For loan forgiveness, is cash rent for land included? Cash rent paid for land in the 8 week period would be included.

5. Do items such as SEP contributions and health insurance for the owners of a self-employed individual get included in the loan forgiveness amount? In the most current guidance, these items are not included for a self-employed person for the calculation of the loan amount or the amount of the loan forgiven.

6. Since the payroll expense is supposed to be 75% of the forgiven loan amount, are utilities and rent not included in the 75%? Utilities, mortgage interest and rent is not included in the 75% of the loan forgiveness amount, but it can make up the other 25% of the loan forgiveness amount.

This information is provided by FBFM under HR 748 (the CARES Act of 3/27/2020) and a reading of the Interim Final Rules issued by SBA 4/2/2020 pursuant thereto, instructions for SBA Form 2483 4/3/2020, and the most recent and daily changing interpretations and guidance and rules available from U.S. Treasury through April 17, 2020.

Sincerely,

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