



Update on PPP Loans for Partnerships

A lack of guidance as to the Payroll Protection Program's applicability in the partnership context initially left many questions unanswered.

On April 14th, the SBA published new guidance that clarifies the payroll determination in loan applications by partnerships. The guidance provides that the self-employment income of partners in a partnership may be reported as a payroll cost, up to \$100,000 annualized per partner, on a PPP loan application filed by or on behalf of the partnership (or LLC taxed as a partnership). Individual partners may not submit a separate PPP loan application as a self-employed individual.

This new guidance is contrary to earlier recommendations that partnerships (including LLCs taxed as partnerships) file an application aggregating payroll for employees only, leaving partners to apply separately as self-employed applicants. We now know that partners' income can be aggregated with employees in calculating partnership payroll for purposes of determining the maximum loan amount. According to the SBA's Interim Final Rule, limiting a partnership and its partners to one PPP loan is necessary to help ensure that as many eligible borrowers as possible obtain PPP loans before the statutory deadline of June 30, 2020.

How Should a Partner Calculate Payroll Costs?

To calculate payroll costs for purposes of determining the maximum loan amount, partners should use their self-employment earnings as reported on line 14A of their Schedule K-1, which would be consistent with the SBA's guidance that self-employed individuals use Schedule C line 31 net profit amount to determine payroll costs.

What If My Application was Already Submitted?

If you or a client is operating as a partnership and have already submitted a PPP loan application prior to the release of the April 14th guidance in the SBA's Interim Final Rule, you (or your client) are entitled to rely on the laws, rules, and guidance available at the time of the application. However, borrowers whose previously submitted loan applications have not yet been processed may revise their applications based on clarifications reflected in subsequent SBA guidance.

For more information on small business guidance and loan resources, please go to sba.gov. If you have any questions or concerns, please do not hesitate to contact our office. We will assist you with other resources as needed.

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