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PAYCHECK PROTECTION PROGRAM HOW TO CALCULATE MAXIMUM LOAN AMOUNTS FOR FIRST DRAW PPP LOANS AND WHAT DOCUMENTATION TO PROVIDE – BY BUSINESS TYPE

The Small Business Administration (SBA), in consultation with the Department of the Treasury, is providing this updated guidance to assist businesses in calculating their payroll costs (and the relevant documentation that is required to support each set of calculations) for purposes of determining the maximum amount of a First Draw Paycheck Protection Program (PPP) loan for each type of business.

Borrowers and lenders may rely on the guidance provided in this document as SBA's interpretation of the CARES Act, the Economic Aid Act, and of the Paycheck Protection Program Interim Final Rules. The U.S. government will not challenge lender PPP actions that conform to this guidance¹ and to the PPP Interim Final Rules and any subsequent rulemaking in effect at the time the action is taken.

The guidance describes payroll costs using calendar year 2019 as the reference period for payroll costs used to calculate loan amounts. However, borrowers are permitted to use payroll costs from either calendar year 2019 or calendar year 2020 for their First Draw PPP Loan amount calculation.² Documentation, including IRS forms, must be supplied for the selected reference period.

- 1. Question:** I am self-employed and have no employees, how do I calculate my maximum First Draw PPP Loan amount? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent by the borrower during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed if you are self-employed and have no employees, and your principal place of residence is in the United States, including if you are an independent contractor or operate a sole proprietorship (but not if you are a partner in a partnership):

- **Step 1:** Find your 2019 IRS Form 1040 Schedule C line 31 net profit amount.³ If this amount is over \$100,000, reduce it to \$100,000. If this amount is zero or less, you are not eligible for a PPP loan.
- **Step 2:** Calculate the average monthly net profit amount (divide the amount from Step 1 by 12).
- **Step 3:** Multiply the average monthly net profit amount from Step 2 by 2.5.

¹ This document does not carry the force and effect of law independent of the statutes and regulations on which it is based.

² All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

³ If you are using 2020 amounts and have not yet completed a 2020 return, fill out the required portions and compute the values.

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- **Step 4:** Add the outstanding amount of any Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020 that you seek to refinance. Do not include the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

Your 2019 IRS Form 1040 Schedule C must be provided to substantiate the applied-for PPP loan amount. You must also provide a 2019 IRS Form 1099-MISC detailing nonemployee compensation received (box 7), IRS Form 1099-K, invoice, bank statement, or book of record establishing you were self-employed in 2019 and a 2020 invoice, bank statement, or book of record establishing you were in operation on February 15, 2020.

2. **Question:** I am self-employed and have employees, how do I calculate my maximum First Draw PPP Loan amount (up to \$10 million)? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent by the borrower during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed if you are self-employed with employees, including if you are an independent contractor or operate a sole proprietorship (but not if you are a partner in a partnership):

- **Step 1:** Compute your 2019 payroll costs by adding the following:
 - 2019 IRS Form 1040 Schedule C line 31 net profit amount:⁴
 - if this amount is over \$100,000, reduce it to \$100,000,
 - if this amount is less than zero, set this amount at zero;
 - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips, and
 - Minus (i) any amount paid to any individual employee in excess of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the United States;
 - 2019 employer contributions for employee group health, life, disability, vision, and dental insurance (the portion of IRS Form 1040 Schedule C line 14 attributable to those contributions);

⁴ If you are using 2020 payroll costs and have not yet completed a 2020 return, fill it out and compute the value.

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- 2019 employer contributions to employee retirement plans (IRS Form 1040 Schedule C line 19); and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs amount (divide the amount from Step 1 by 12).
 - **Step 3:** Multiply the average monthly payroll costs amount from Step 2 by 2.5.
 - **Step 4:** Add the outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance. Do not include the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

Your 2019 IRS Form 1040 Schedule C, IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements), along with documentation of any retirement or group health, life, disability, vision, and dental contributions, must be provided to substantiate the applied-for PPP loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

3. **Question:** I am a self-employed farmer or rancher who reports my income on IRS Form 1040 Schedule F. What documentation must I provide in place of Schedule C and how should my maximum loan amount be determined (up to \$10 million)?

Answer: Self-employed farmers and ranchers (i.e., those who report their net farm profit on IRS Form 1040 Schedule 1 and Schedule F) should use IRS Form 1040 Schedule F in lieu of Schedule C.

The calculation for self-employed farmers and ranchers without employees is the same as for Schedule C filers that have no employees, except that Schedule F line 9 (gross income) should be used to determine the loan amount rather than Schedule C line 31 (net profit).

The calculation for self-employed farmers and ranchers with employees is the same as for Schedule C filers that have employees with several exceptions. First, in place of Schedule C line 31 (net profit), the difference between Schedule F line 9 (gross income) and the sum of Schedule F lines 15, 22, and 23 (for employee payroll) should be used. Second, employer contributions for employee group health, life, disability, vision and dental insurance (portion of Schedule F line 15 attributable to those contributions) and employer contributions for employee retirement contributions (Schedule F line 23) should be used in place of those respective lines on Schedule C.

The documentation requirements are the same as for Schedule C filers except the 2019

IRS Form 1040 Schedule 1 and Schedule F must be included with the loan application in place of IRS Form 1040 Schedule C. Additionally, for farmers and ranchers with employees, IRS Form 943 should be provided in addition to, or in place of, IRS Form 941, as applicable.

- 4. Question:** How do partnerships apply for PPP loans, and how is the maximum First Draw PPP Loan amount calculated for partnerships (up to \$10 million)? Should partners' self-employment income be included on the business entity level PPP loan application or on separate PPP loan applications for each partner? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed for partnerships (partners' self-employment income should be included on the partnership's PPP loan application; individual partners may not apply for separate PPP loans):

- **Step 1:** Compute 2019 payroll costs by adding the following:
 - 2019 Schedule K-1 (IRS Form 1065) Net earnings from self-employment of individual U.S.-based general partners that are subject to self-employment tax, multiplied by 0.9235,⁵ up to \$100,000 per partner:⁶
 - Compute the net earnings from self-employment of individual U.S.-based general partner that are subject to self-employment tax from box 14a of IRS Form 1065 Schedule K-1 and subtract (i) any section 179 expense deduction claimed in box 12; (ii) any unreimbursed partnership expenses claimed; and (iii) any depletion claimed on oil and gas properties;
 - if this amount is over \$100,000, reduce it to \$100,000;
 - if this amount is less than zero, set this amount at zero;
 - 2019 gross wages and tips paid to employees whose principal place of residence is in the United States (if any), up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips, and
 - Minus any amounts paid to any individual employee in excess of \$100,000 and any amounts paid to any employee whose principal

⁵ This treatment follows the computation of self-employment tax from IRS Form 1040 Schedule SE Section A line 4 and removes the "employer" share of self-employment tax, consistent with how payroll costs for employees in the partnership are determined.

⁶ If the partnership is using 2020 payroll costs and the Form 1065 for 2020 has not yet been completed, fill out the form.

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place of residence is outside the United States;

- 2019 employer contributions for employee (but not partner) group health, life, disability, vision, and dental insurance, if any (portion of IRS Form 1065 line 19 attributable to those contributions);
 - 2019 employer contributions to employee (but not partner) retirement plans, if any (IRS Form 1065 line 18); and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms), if any.
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 12).
 - **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.
 - **Step 4:** Add any outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance. Do not include the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

The partnership's 2019 IRS Form 1065 (including K-1s) must be provided to substantiate the applied-for First Draw PPP Loan amount. If the partnership has employees, other relevant supporting documentation, including the 2019 IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements) along with records of any retirement or group health, life, disability, vision, and dental insurance contributions must also be provided to substantiate the First Draw PPP Loan amount. If the partnership has employees, a payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish the partnership was in operation and had employees on that date. If the partnership has no employees, an invoice, bank statement, or book of record establishing the partnership was in operation on February 15, 2020 must instead be provided.

5. **Question:** How is the maximum First Draw PPP Loan amount calculated for S corporations and C corporations (up to \$10 million)? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed for corporations, including S and C corporations:

- **Step 1:** Compute 2019 payroll costs by adding the following:
 - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-

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column 1) from each quarter,

- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips,
- Minus (i) any amounts paid to any individual employee in excess of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the United States;
 - 2019 employer group health, life, disability, vision, and dental insurance contributions (portion of IRS Form 1120 line 24 or IRS Form 1120-S line 18 attributable to those contributions);⁷
 - 2019 employer retirement contributions (IRS Form 1120 line 23 or IRS Form 1120-S line 17); and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 12).
- **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5
- **Step 4:** Add the outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance. Do not include the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

The corporation's 2019 IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements), along with the filed business tax return (IRS Form 1120 or IRS 1120-S) or other documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for PPP loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

- 6. Question:** How is the maximum First Draw PPP Loan amount calculated for eligible nonprofit organizations (up to \$10 million)? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed for eligible nonprofit organizations (eligible nonprofit religious institutions or other eligible nonprofits without an IRS Form 990 filing requirement, see

⁷ Note that employer contributions for group health, life, disability, vision, and dental insurance for S-Corporation employees who own more than a 2 percent stake in the business (or employees who are family members of such owners) are not included in this figure as such contributions are already included in gross wages.

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the next question):

- **Step 1:** Compute 2019 payroll costs by adding the following:
 - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips, and
 - Minus (i) any amounts paid to any individual employee in excess of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the U.S.;
 - 2019 employer group health, life, disability, vision, and dental insurance contributions (portion of IRS Form 990 Part IX line 9 attributable to those contributions);
 - 2019 employer retirement contributions (IRS Form 990 Part IX line 8); and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 12).
- **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.
- **Step 4:** Add the outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance. Do not include the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

The nonprofit organization's 2019 IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements), along with the filed IRS Form 990 Part IX or other documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for PPP loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date. Eligible nonprofits that file IRS Form 990-EZ should rely on that form and those that do not file an IRS Form 990 or 990-EZ, typically those with gross receipts less than \$50,000, should see the next question.

7. **Question:** How is the maximum First Draw PPP Loan amount calculated for eligible nonprofit religious institutions, veterans organizations, and tribal businesses (up to \$10

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million)? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed for eligible nonprofit religious institutions, veterans organizations and tribal businesses:

- **Step 1:** Compute 2019 payroll costs by adding the following:
 - 2019 gross wages and tips paid to employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips, and
 - Minus (i) any amounts paid to any individual employee in excess of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the United States;
 - 2019 employer group health, life, disability, vision, and dental insurance contributions;
 - 2019 employer retirement contributions; and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 12).
- **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.
- **Step 4:** Add any outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance. Do not include the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

The entity's 2019 IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements), along with documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for PPP loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

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8. Question: I am an LLC owner. Which set of instructions applies to me?

Answer: LLCs should follow the instructions that apply to their tax filing status in the reference period used to calculate payroll costs (2019 or 2020)—i.e., whether the LLC filed (or will file) as a sole proprietor, a partnership, or a corporation in the reference period.

9. Question: What other documentation can an applicant provide for the purpose of substantiating payroll costs used to calculate the applied-for First Draw PPP Loan amount?

Answer: An applicant may provide IRS Form W-2s and IRS Form W-3 or payroll processor reports, including quarterly and annual tax reports, in lieu of IRS Form 941. Additionally, very small businesses that file an annual IRS Form 944 or agricultural employers that file an annual IRS Form 943 should rely on and provide IRS Form 944 or IRS Form 943 in lieu of IRS Form 941.

An applicant may provide records from a retirement administrator to document employer retirement contributions. An applicant may also provide records from a health insurance company or third-party administrator for a self-insured plan to document employer health insurance contributions.

10. Question: I am a corporation or nonprofit and was in operation on February 15, 2020, but was not in operation between February 15, 2019, and June 30, 2019. What reference period should I be using to compute my First Draw PPP Loan amount?

Answer: In this case, you may choose one of two ways to calculate your First Draw PPP Loan amount. The first option is for borrowers to follow the applicable instructions in Questions 5, 6, 7 and use payroll information for all of 2020 instead of 2019. The second option is for borrowers to calculate their loan amount using their average monthly payroll costs incurred in January and February 2020. For borrowers choosing the second option, the following methodology should be used to calculate the maximum amount that you can borrow:

- **Step 1:** Compute January and February 2020 payroll costs by adding the following:
 - Gross pay to employees for those two months whose principal place of residence is in the United States, up to \$16,667 per employee;
 - Employer group health, life, disability, vision, and dental insurance contributions for those two months;
 - Employer retirement contributions for those two months; and
 - Employer state and local taxes assessed on employee compensation for those two months, primarily state unemployment insurance tax.
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 2).

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- **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.
- **Step 4:** Add any outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance. Do not include the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

If you choose the second option, you must provide payroll records from January and February 2020, your IRS Form 941 for the first quarter of 2020, and documentation of any employer retirement and group health, life, disability, vision, and dental insurance contributions from that period.

11. Question: I am self-employed (or a partnership) and was in operation on February 15, 2020, but was not in operation between February 15, 2019, and June 30, 2019. I have filed or will file a Form 1040 Schedule C or Schedule F (or Form 1065) for 2020. What reference period should I be using to compute my First Draw PPP Loan amount?

Answer: In this case, you may choose one of two ways to calculate your First Draw PPP Loan amount. The first option is for borrowers to follow the applicable instructions in Question 1 through 4 and use payroll information for all of 2020 instead of 2019. The second option is for borrowers to calculate their loan amount using their average monthly payroll costs incurred in January and February 2020. For borrowers choosing the second option, the following methodology should be used by Schedule C filers to calculate the maximum amount that you can borrow:

- **Step 1:** Fill out an IRS Form 1040 Schedule C for January and February 2020. The entries on the schedule must reflect all business income and expenses from those two months, with the exception that on Schedule C line 13:
 - you must include only 1/6 of the amount of any annual depreciation and section 179 expense deduction attributable to investment made in those months, and
 - you must include 1/6 of the amount of the 2020 depreciation deduction attributable to investment made in prior years.
- **Step 2:** Take the net profit amount for January and February on Schedule C line 31.
 - If this amount is more than \$16,667 for the two months combined, set it to \$16,667.
 - If this amount is less than 0 for the two months combined, set it to 0.
- **Step 3:** If you have employees, add your employee payroll costs for January and February 2020 to the result in Step 2. Only include payroll costs for those employees whose principal place of residence is in the United States and up to \$16,667 of gross pay per employee.
- **Step 4:** Divide the total by 2, and then multiply it by 2.5.

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- **Step 5:** Add the outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of any advance under an EIDL COVID-19 loan (because it does not have to be repaid).

Your IRS Form 1040 Schedule C as completed must be provided to your lender when you apply for a PPP loan. This information should be consistent with what you will submit to the IRS and must be true and accurate in all material respects. You must also supply bank statements from your business account(s) for the months of January and February 2020 to substantiate your net profit amount from Schedule C. If you have employees, you also must provide payroll records from those two months, your IRS Form 941 for the first quarter of 2020, and documentation of any employer retirement and group health, life, disability, vision, and dental insurance contributions made on behalf of employees.

Schedule F filers should use the same methodology as above but complete a Schedule F in Step 1 and replace net profit from Step 2 with the gross income amount on Schedule F line 9 (if no employees) or the difference between the gross profit amount on Schedule F line 9 and employee payroll costs from the sum of Schedule F lines 15, 22, and 23 (if you have employees). Documentation requirements are the same as above except Schedule F as completed must be provided in place of Schedule C.

Partnerships should use the same methodology as above but complete a Form 1065 in Step 1 and replace net profit from Step 2 with the net earnings from self-employment for each individual U.S.-based general partners (the difference between box 14a of IRS Form 1065 K-1 and the sum of (i) any section 179 expense deduction claimed in box 12; (ii) any unreimbursed partnership expenses claimed; and (iii) any depletion claimed on oil and gas properties) multiplied 0.9235. Documentation requirements are the same as above except Form 1065 as completed must be provided in place of Schedule C.

- 12. Question:** In addition to pre-tax employee contributions for health insurance, what are the other pre-tax employee contributions for fringe benefits that may have been excluded from IRS Form 941 Taxable Medicare wages & tips that is part of employee gross pay?

Answer: Employee contributions and deductions from pay for flexible spending arrangements (FSA) or other nontaxable benefits under a section 125 cafeteria plan, qualified transit or parking benefits (up to \$270 a month), and group life insurance (for up to \$50,000 of coverage) may have been excluded from IRS Form 941 Taxable Medicare wages & tips. However, pre-tax employee contributions to retirement plans are included in Taxable Medicare wages & tips and should not be added to that figure to arrive at gross pay.

- 13. Question:** How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?

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Answer: Payroll costs are calculated on a gross basis without regard to federal taxes imposed or withheld, such as the employee's and employer's share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer. However, payroll costs do not include the employer's share of payroll tax. For example, the wages of an employee who earned \$4,000 per month in gross wages, from which \$500 in federal taxes was withheld, count as \$4,000 in payroll costs. However, the employer-side federal payroll taxes imposed on the \$4,000 in wages are excluded from payroll costs under the statute.⁸

14. Question: Is there a limit on the dollar amount of First Draw PPP Loans a corporate group can receive?

Answer: Yes, businesses that are part of the same corporate group cannot receive First Draw PPP Loans in a total amount of more than \$20 million. For purposes of this limit, businesses are part of a single corporate group if they are majority owned, directly or indirectly, by a common parent.

⁸ The definition of "payroll costs" in the CARES Act, 15 U.S.C. 636(a)(36)(A)(viii), excludes "taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code of 1986 during the covered period". As described above, the SBA interprets this statutory exclusion to mean that payroll costs are calculated on a gross basis, without subtracting federal taxes that are imposed on the employee or withheld from employee wages. Unlike employer-side payroll taxes, such employee-side taxes are ordinarily expressed as a reduction in employee take-home pay; their exclusion from the definition of payroll costs means payroll costs should not be reduced based on taxes imposed on the employee or withheld from employee wages. This interpretation is consistent with the text of the statute and advances the legislative purpose of ensuring workers remain paid and employed. Further, because the reference period for determining a borrower's maximum loan amount will largely or entirely precede the period during which borrowers will be subject to the restrictions on allowable uses of the loans, for purposes of the determination of allowable uses of loans and the amount of loan forgiveness, this statutory exclusion will apply with respect to such taxes imposed or withheld at any time, not only during such period.

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Second Draw Paycheck Protection Program (PPP) Loans: How to Calculate Revenue Reduction and Maximum Loan Amounts Including What Documentation to Provide

The Small Business Administration (SBA), in consultation with the Department of the Treasury, is providing this guidance to assist businesses in calculating their revenue reduction and payroll costs (and the relevant documentation that is required to support each set of calculations) for purposes of determining their eligibility for and amount of a Second Draw PPP Loan.

Borrowers and lenders may rely on the guidance provided in this document as SBA's interpretation of the CARES Act, the Economic Aid Act, and the Paycheck Protection Program Interim Final Rules. The U.S. government will not challenge lender PPP actions that conform to this guidance¹ and to the PPP Interim Final Rules and any subsequent rulemaking in effect at the time the action is taken.

Revenue Reduction

- 1. Question:** What are "gross receipts" for the purpose of determining eligibility for a Second Draw PPP Loan?

Answer: For a **for-profit business**, gross receipts generally are all revenue in whatever form received or accrued (in accordance with the entity's accounting method, i.e., accrual or cash) from whatever source, including from the sales of products or services, interest, dividends, rents, royalties, fees, or commissions, reduced by returns and allowances but excluding net capital gains and losses. These terms carry the definitions used and reported on IRS tax return forms.

Gross receipts do not include the following:

- taxes collected for and remitted to a taxing authority if included in gross or total income, such as sales or other taxes collected from customers (this does not include taxes levied on the concern or its employees);
- proceeds from transactions between a concern and its domestic or foreign affiliates; and
- amounts collected for another by a travel agent, real estate agent, advertising agent, conference management service provider, freight forwarder or customs broker.

All other items, such as subcontractor costs, reimbursements for purchases a contractor makes at a customer's request, investment income, and employee-based costs such as payroll taxes, may not be excluded from gross receipts.

For a nonprofit 501(c)(3) organization, a 501(c)(19) veterans organization, an eligible nonprofit news organization, an eligible 501(c)(6) organization, or an eligible destination marketing organization, gross receipts means gross receipts within the

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meaning of section 6033 of the Internal Revenue Code of 1986, which is the gross amount received by the organization during its annual accounting period from all sources without reduction for any costs or expenses including, for example, cost of goods or assets sold, cost of operations, or expenses of earning, raising, or collecting such amounts. Thus “gross receipts” includes, but is not limited to:

- (i) the gross amount received as contributions, gifts, grants, and similar amounts without reduction for the expenses of raising and collecting such amounts,
- (ii) the gross amount received as dues or assessments from members or affiliated organizations without reduction for expenses attributable to the receipt of such amounts,
- (iii) gross sales or receipts from business activities (including business activities unrelated to the purpose for which the organization qualifies for exemption, the net income or loss from which may be required to be reported on Form 990-T),
- (iv) the gross amount received from the sale of assets without reduction for cost or other basis and expenses of sale, and
- (v) the gross amount received as investment income, such as interest, dividends, rents, and royalties.

Gross receipts of a borrower’s affiliates (unless a waiver of affiliation applies²) are calculated by adding the gross receipts of the business concern with the gross receipts of each affiliate.³

For more information on what constitutes gross receipts by entity type, see FAQ 5 below.

- 2. Question:** For all entity types (e.g., for-profit businesses and nonprofit organizations), do “gross receipts” include PPP Loan proceeds that are forgiven (or EIDL advances)?

Answer: No. The amount of any forgiven First Draw PPP Loan or any EIDL advance, which are not subject to federal income tax, is not included in the calculation of “gross receipts”.

- 3. Question:** What reference periods can be used to determine whether the Applicant can demonstrate at least a 25 percent gross receipts reduction in order to qualify for a Second Draw PPP loan?

Answer: The appropriate reference periods depend on how long the Applicant has been in business:

² See subsection (d) of the interim final rule titled “Business Loan Program Temporary Changes; Paycheck Protection Program Second Draw Loans” posted on SBA’s website January 6, 2021 (86 FR 3712).

³ If a borrower has acquired an affiliate or been acquired as an affiliate during 2020, gross receipts includes the receipts of the acquired or acquiring concern. This aggregation applies for the entire period of measurement, not just the period after the affiliation arose. However, if a concern acquired a segregable division of another business concern during 2020, gross receipts do not include the receipts of the acquired division prior to the acquisition. Similarly, the gross receipts of a former affiliate are not included. This exclusion of gross receipts of such former affiliate applies during the entire period of measurement, rather than only for the period after which affiliation ceased. However, if a borrower sold a segregable division during 2020, the gross receipts will continue to include the receipts of the division that was sold. All terms in this paragraph have the meaning attributed to them by the IRS.

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- For all Applicants, except those satisfying the conditions set forth below, the Applicant must demonstrate that gross receipts in any calendar quarter of 2020 were at least 25 percent lower than the same quarter of 2019. Alternatively, Applicants may compare annual gross receipts in 2020 with annual gross receipts in 2019 if they were in business in 2019.
 - For entities not in business during the first and second quarters of 2019 but in operation during the third and fourth quarters of 2019, Applicants must demonstrate that gross receipts in any quarter of 2020 were at least 25 percent lower than during either the third or fourth quarters of 2019.
 - For entities not in business during the first, second, and third quarters of 2019 but in operation during the fourth quarter of 2019, Applicants must demonstrate that gross receipts in any quarter of 2020 were at least 25 percent lower than the fourth quarter of 2019.
 - For entities not in business during 2019 but in operation on February 15, 2020, Applicants must demonstrate that gross receipts in the second, third, or fourth quarter of 2020 were at least 25 percent lower than the first quarter of 2020.
4. **Question:** What documentation do I need to provide to corroborate that my entity sustained at least a 25 percent reduction in gross receipts?

Answer: The following are the primary sets of documentation Applicants can provide to substantiate their certification of a 25 percent gross receipts reduction (only one set is required):

- Quarterly financial statements for the entity. If the financial statements are not audited, the Applicant must sign and date the first page of the financial statement and initial all other pages, attesting to their accuracy. If the financial statements do not specifically identify the line item(s) that constitute gross receipts, the Applicant must annotate which line item(s) constitute gross receipts.
- Quarterly or monthly bank statements for the entity showing deposits from the relevant quarters. The Applicant must annotate, if it is not clear, which deposits listed on the bank statement constitute gross receipts (e.g., payments for purchases of goods and services) and which do not (e.g., capital infusions).
- Annual IRS income tax filings of the entity (required if using an annual reference period). If the entity has not yet filed a tax return for 2020, the Applicant must fill out the return forms, compute the relevant gross receipts value (see Question 5), and sign and date the return, attesting that the values that enter into the gross receipts computation are the same values that will be filed on the entity's tax return.

5. **Question:** If I use my entity's annual income tax returns to demonstrate a gross receipts reduction of at least 25 percent, what amounts do I use to calculate gross receipts?

Answer: The amounts required to compute gross receipts varies by the entity tax return type:⁴

- For self-employed individuals other than farmers and ranchers (IRS Form 1040 Schedule C): sum of line 4 and line 7⁵
 - For self-employed farmers and ranchers (IRS Form 1040 Schedule F): sum of lines 1b and 9
 - For partnerships (IRS Form 1065): sum of lines 2 and 8, minus line 6
 - For S-Corporations (IRS Form 1120-S): sum of lines 2 and 6, minus line 4
 - For C-Corporations (IRS Form 1120): sum of lines 2 and 11, minus the sum of lines 8 and 9
 - For nonprofit organizations (IRS Form 990): the sum of lines 6b(i), 6b(ii), 7b(i), 7b(ii), 8b, 9b, 10b, and 12 (column (A)) of Part VIII
 - For nonprofit organizations (IRS Form 990-EZ): sum of lines 5b, 6c, 7b, and 9 of Part I.
 - LLCs should follow the instructions that apply to their tax filing status in the reference periods.
6. **Question:** I am applying for a Second Draw PPP Loan amount greater than \$150,000. When do I need to provide the documentation to substantiate the reduction in gross receipts?

Answer: For a Second Draw PPP Loan amount greater than \$150,000, the applicant must provide documentation substantiating the reduction in gross receipts with its Second Draw Borrower Application Form (SBA Form 2483-SD or lender's equivalent form). The documentation must support the amounts provided in the application.

7. **Question:** I am an applicant for a Second Draw PPP Loan amount of \$150,000 or less. When do I need to provide the documentation to substantiate the reduction in gross receipts?

Answer: For a Second Draw PPP Loan amount of \$150,000 or less, the borrower must provide documentation substantiating the reduction in gross receipts before or at the time the borrower seeks loan forgiveness (or upon SBA request). The documentation must clearly identify both of the reference quarters (if not using annual comparison), must contain the gross receipts amounts for both quarters, and support the amounts provided.

⁴ Any of the following included in the specific tax form lines must be excluded from the computation and annotated on the return: taxes collected for and remitted to a taxing authority if included in gross or total income (such as sales or other taxes collected from customers and excluding taxes levied on the concern or its employees); proceeds from transactions between a concern and its domestic or foreign affiliates; and amounts collected for another by a travel agent, real estate agent, advertising agent, conference management service provider, freight forwarder or customs broker. In particular, for tax returns that include sales tax as income and then as a deduction, annotate next to the "taxes and license" line of the return the amount of such taxes that were included in income.

⁵ If you file multiple Schedule C forms on the same Form 1040, you must include and sum across all of them.

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(Payroll documentation to substantiate the amount of the loan requested must still be provided with the Second Draw PPP Loan application, see the next set of FAQs in this document for more information.)

- 8. Question:** Can I document my reduction in gross receipts with income tax returns if my entity files taxes on the basis of a fiscal year that differs from the calendar year?

Answer: Entities that use a fiscal year to file taxes may document a reduction in gross receipts with income tax returns only if their fiscal year contains all of the second, third, and fourth quarters of the calendar year (i.e., have a fiscal year start date of February 1, March 1, or April 1).

Maximum Second Draw PPP Loan Amounts

This guidance describes payroll costs using calendar year 2019 as the reference period for determining payroll costs used to calculate loan amounts. However, borrowers are permitted to use payroll costs from either calendar year 2019 or calendar year 2020 for their Second Draw PPP Loan amount calculation.⁶ Documentation, including IRS forms, must be supplied for the selected reference period. If a borrower is using the same lender and same payroll timeframe as it used for its First Draw PPP Loan and already submitted the required payroll documentation to the lender, no additional payroll documentation is required to be submitted with its Second Draw PPP Loan application.

- 1. Question:** I am self-employed and have no employees. How do I calculate my maximum Second Draw PPP Loan amount? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed if you are self-employed and have no employees, and your principal place of residence is in the United States, including if you are an independent contractor or operate a sole proprietorship (but not if you are a partner in a partnership):

- **Step 1:** Find your 2019 IRS Form 1040 Schedule C line 31 net profit amount.⁷ If this amount is over \$100,000, reduce it to \$100,000. If this amount is zero or less, you are not eligible for a PPP loan.
- **Step 2:** Calculate the average monthly net profit amount (divide the amount from Step 1 by 12).
- **Step 3:** Multiply the average monthly net profit amount from Step 2 by 2.5.⁸

Your 2019 IRS Form 1040 Schedule C must be provided to substantiate the applied-for Second Draw PPP Loan amount. You must also provide a 2019 IRS Form 1099-MISC detailing nonemployee compensation received (box 7), IRS Form 1099-K, invoice, bank statement, or book of record establishing you were self-employed in 2019 and a 2020 invoice, bank statement, or book of record establishing you were in operation on February 15, 2020.

- 2. Question:** I am self-employed and have employees. How do I calculate my maximum Second Draw PPP Loan amount (up to \$2 million)? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

⁶ All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

⁷ If you are using 2020 amounts and you have not yet completed a 2020 return, fill it out and compute the value.

⁸ Multiply by 3.5 if your business is in the Accommodation and Food Services sector (NAICS Code 72) and the business activity code reported on your most recent IRS Form 1040 Schedule C line B begins with 72.

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Answer: The following methodology should be used to calculate the maximum amount that can be borrowed if you are self-employed with employees, including if you are an independent contractor or operate a sole proprietorship (but not if you are a partner in a partnership):

- **Step 1:** Compute your 2019 payroll costs by adding the following:
 - 2019 IRS Form 1040 Schedule C line 31 net profit amount;⁹
 - if this amount is over \$100,000, reduce it to \$100,000;
 - if this amount is less than zero, set this amount at zero;
 - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips,
 - Minus (i) any amounts paid to any individual employee in excess of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the United States;
 - 2019 employer contributions for employee group health, life, disability, vision, and dental insurance (the portion of IRS Form 1040 Schedule C line 14 attributable to those contributions);
 - 2019 employer contributions to employee retirement plans (IRS Form 1040 Schedule C line 19); and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs amount (divide the amount from Step 1 by 12).
- **Step 3:** Multiply the average monthly payroll costs amount from Step 2 by 2.5.¹⁰

Your 2019 IRS Form 1040 Schedule C, IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements), along with documentation of any retirement or group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP Loan amount. A

⁹ If you are using 2020 payroll costs and have not yet completed a 2020 return, fill it out and compute the value.

¹⁰ Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 1040 Schedule C line B begins with 72.

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payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

- 3. Question:** I am a self-employed farmer or rancher who reports my income on IRS Form 1040 Schedule F. What documentation must I provide in place of Schedule C and how should my maximum Second Draw PPP Loan amount be calculated (up to \$2 million)?

Answer: Self-employed farmers and ranchers (i.e., those who file IRS Form 1040 Schedule F and then report Schedule F income on IRS Form 1040 Schedule 1) should use IRS Form 1040 Schedule F in lieu of Schedule C.

The calculation for self-employed farmers and ranchers without employees is the same as for Schedule C filers that have no employees, except that Schedule F line 9 (gross income) should be used to determine the loan amount rather than Schedule C line 31 (net profit).

The calculation for self-employed farmers and ranchers with employees is the same as for Schedule C filers that have employees with several exceptions. First, in place of Schedule C line 31 (net profit), the difference between Schedule F line 9 (gross income) and the sum of Schedule F lines 15, 22, and 23 (for employee payroll) should be used. Second, employer contributions for employee group health, life, disability, vision and dental insurance (portion of Schedule F line 15 attributable to those contributions) and employer contributions for employee retirement contributions (Schedule F line 23) should be used in place of those respective lines on Schedule C.

The documentation requirements are the same as for Schedule C filers except the 2019 IRS Form 1040 Schedule 1 and Schedule F must be included with the Second Draw PPP Loan application in place of IRS Form 1040 Schedule C. Additionally, for farmers and ranchers with employees, IRS Form 943 should be provided in addition to, or in place of, IRS Form 941, as applicable.

- 4. Question:** How do partnerships apply for Second Draw PPP Loans and how is the maximum Second Draw PPP Loan amount calculated for partnerships (up to \$2 million)? Should partners' self-employment income be included on the business entity level Second Draw PPP Loan application or on separate Second Draw PPP Loan applications for each partner? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed for partnerships (partners' self-employment income should be included on the partnership's PPP loan application, individual partners may not apply for separate PPP loans):

- **Step 1:** Compute 2019 payroll costs by adding the following:

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- 2019 Schedule K-1 (IRS Form 1065) Net earnings from self-employment of individual U.S.-based general partners that are subject to self-employment tax, multiplied by 0.9235,¹¹ up to \$100,000 per partner;¹²
 - Compute the net earnings from self-employment of individual U.S.-based general partner that are subject to self-employment tax from box 14a of IRS Form 1065 Schedule K-1 and subtract (i) any section 179 expense deduction claimed in box 12; (ii) any unreimbursed partnership expenses claimed; and (iii) any depletion claimed on oil and gas properties.
 - if this amount is over \$100,000 for a partner, reduce it to \$100,000;
 - if this amount is less than zero for a partner, set this amount at zero;
 - 2019 gross wages and tips paid to employees whose principal place of residence is in the United States (if any), up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips,
 - Minus (i) any amounts paid to any individual employee in excess of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the United States;
 - 2019 employer contributions for employee (but not partner) group health, life, disability, vision, and dental insurance, if any (portion of IRS Form 1065 line 19 attributable to those contributions);
 - 2019 employer contributions to employee (but not partner) retirement plans, if any (IRS Form 1065 line 18); and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms), if any.
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 12).

¹¹ This treatment follows the computation of self-employment tax from IRS Form 1040 Schedule SE Section A line 4 and removes the “employer” share of self-employment tax, consistent with how payroll costs for employees in the partnership are determined.

¹² If the partnership is using 2020 payroll costs and the Form 1065 for 2020 has not yet been completed, fill out the form.

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- **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.¹³

The partnership's 2019 IRS Form 1065 (including K-1s) must be provided to substantiate the applied-for Second Draw PPP Loan amount. If the partnership has employees, other relevant supporting documentation, including the 2019 IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements) along with records of any retirement or group health, life, disability, vision, and dental insurance contributions must also be provided to substantiate the PPP loan amount. If the partnership has employees, a payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish the partnership was in operation and had employees on that date. If the partnership has no employees, an invoice, bank statement, or book of record establishing the partnership was in operation on February 15, 2020 must instead be provided.

5. **Question:** How is the maximum Second Draw PPP Loan amount calculated for S corporations and C corporations (up to \$2 million)? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed for corporations, including S and C corporations:

- **Step 1:** Compute 2019 payroll costs by adding the following:
 - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips,
 - Minus (i) any amounts paid to any individual employee in excess of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the United States;
 - 2019 employer group health, life, disability, vision, and dental insurance contributions (portion of IRS Form 1120 line 24 or IRS Form 1120-S line 18 attributable to those contributions);¹⁴
 - 2019 employer retirement contributions (IRS Form 1120 line 23 or IRS

¹³ Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 1065 Line C begins with 72.

¹⁴ Note that employer contributions for group health, life, disability, vision, and dental insurance for S-Corporation employees who own more than a 2 percent stake in the business (or employees who are family members of such owners) are not included in this figure as such contributions are already included in gross wages.

Form 1120-S line 17); and

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 12).
- **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.¹⁵

The corporation's 2019 IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements), along with the filed business tax return (IRS Form 1120 or IRS 1120-S) or other documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP Loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

6. **Question:** How is the maximum Second Draw PPP Loan amount calculated for eligible nonprofit organizations (up to \$2 million)? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed for eligible nonprofit organizations (eligible nonprofit religious institutions or other eligible nonprofits without an IRS Form 990 filing requirement, see the next question):

- **Step 1:** Compute 2019 payroll costs by adding the following:
 - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips,
 - Minus (i) any amounts paid to any individual employee in excess of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the United States;
 - 2019 employer group health, life, disability, vision, and dental insurance contributions (portion of IRS Form 990 Part IX line 9 attributable to those

¹⁵ Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 1120 Schedule K, line 2A (IRS Form 1120-S item B) begins with 72.

- contributions);
 - 2019 employer retirement contributions (IRS Form 990 Part IX line 8); and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 12).
 - **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.¹⁶

The nonprofit organization's 2019 IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements), along with the filed IRS Form 990 Part IX or other documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP Loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date. Eligible nonprofits that file IRS Form 990-EZ should rely on that form and those that do not file an IRS Form 990 or 990-EZ, typically those with gross receipts less than \$50,000, should see the next question.

7. **Question:** How is the maximum Second Draw PPP Loan amount calculated for eligible nonprofit religious institutions, veterans organizations, and tribal businesses (up to \$2 million)? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed for eligible nonprofit religious institutions, veterans organizations and tribal businesses:

- **Step 1:** Compute 2019 payroll costs by adding the following:
 - 2019 gross wages and tips paid to employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips,
 - Minus (i) any amounts paid to any individual employee in excess

¹⁶ Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 990 Part VIII, adjacent to line 2A begins with 72.

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of \$100,000, and (ii) any amounts paid to any employee whose principal place of residence is outside the U.S.;

- 2019 employer group health, life, disability, vision, and dental insurance contributions;
 - 2019 employer retirement contributions and
 - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by 12).
 - **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.¹⁷

The entity's 2019 IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements), along with documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

8. Question: I am an LLC owner. Which set of instructions applies to me?

Answer: LLCs should follow the instructions that apply to their tax filing status in the reference period used to calculate payroll costs (2019 or 2020)—i.e., whether the LLC filed (or will file) as a sole proprietor, a partnership, or a corporation in the reference period.

9. Question: What other documentation can an applicant provide for the purpose of substantiating payroll costs used to calculate the applied-for Second Draw PPP Loan amount?

Answer: An applicant may provide IRS Form W-2s and IRS Form W-3 or payroll processor reports, including quarterly and annual tax reports, in lieu of IRS Form 941. Additionally, very small businesses that file an annual IRS Form 944 or agricultural employers that file an annual IRS Form 943 should rely on and provide IRS Form 944 or IRS Form 943 in lieu of IRS Form 941.

An applicant may provide records from a retirement administrator to document employer retirement contributions. An applicant may also provide records from a health insurance company or third-party administrator for a self-insured plan to document

¹⁷ Multiply by 3.5 if your business is in the Accommodation and Food Services sector (NAICS code that begins with 72, e.g., a hotel, restaurant, bar).

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employer health insurance contributions.

10. Question: How is the maximum Second Draw PPP Loan amount calculated for a corporation or nonprofit not in operation for the full one-year period preceding February 15, 2020? (Note that PPP loan forgiveness amounts will depend, in part, on the total amount spent during the covered period following disbursement of the PPP loan.)

Answer: The following methodology should be used to calculate the maximum amount that can be borrowed:

- **Step 1:** Compute total payroll costs from when first in operation in 2019 or 2020 through the end of calendar year 2020 by adding the following:
 - Gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee annualized, which can be computed using:
 - IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter the business was in operation,
 - Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips,
 - Minus (i) any amounts paid to any individual employee in excess of the product of \$8,333 and the number of months in operation through 2020, and (ii) any amounts paid to any employee whose principal place of residence is outside the United States;
 - Employer group health, life, disability, vision, and dental insurance contributions;¹⁸
 - Employer retirement contributions; and
 - Employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by number of months in operation from 2019 through the end of 2020).
- **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.¹⁹

The entity's IRS Form 941s and state quarterly wage unemployment insurance tax reporting form from each quarter the entity was in operation (or equivalent payroll processor records or IRS Wage and Tax Statements), along with documentation of any

¹⁸ Note that employer contributions for group health, life, disability, vision, and dental insurance for S-Corporation employees who own more than a 2 percent stake in the business (or employees who are family members of such owners) are not included in this figure as such contributions are already included in gross wages.

¹⁹ Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent income tax return (Form 1120 Schedule K, line 2A for corporations, Form 1120-S item B for S-corporations, and Form 990 Part VIII, adjacent to line 2A for nonprofits) begins with 72.

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retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP Loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

11. Question: I am self-employed (or a partnership) and was in operation on February 15, 2020, but was not in operation for the full one-year period preceding February 15, 2020. I have filed or will file a Form 1040 Schedule C or Schedule F (or Form 1065) for 2020. What reference period should I be using to compute my Second Draw PPP Loan amount?

Answer: In this case, your maximum Second Draw PPP Loan amount is the average monthly payroll based on the number of months in which you were in operation from 2019 through the end of calendar year 2020, excluding costs over \$100,000 on an annualized basis.

- **Step 1:** Compute total applicable owner compensation across 2019 (if in operation that year) and 2020 income tax returns:²⁰
 - For **self-employed Schedule C filers**, it is the sum of the value of Form 1040 Schedule C line 31 net profit.
 - If this amount is less than zero, set this amount to zero;
 - For **self-employed farmer or rancher with no employees**, it is the sum of the value of Form 1040 Schedule F line 9 gross income.
 - For **self-employed farmer or rancher with employees**, it is the sum of difference between the gross income amount on Form 1040 Schedule F line 9 and employee payroll costs from the sum of Form 1040 Schedule F lines 15, 22, and 23.
 - If this amount is less than zero, set this amount to zero.
 - For **partnerships**, it is the sum of Schedule K-1 (IRS Form 1065) net earnings from self-employment of individual U.S.-based general partners that are subject to self-employment tax, multiplied by 0.9235.
 - Compute the net earnings from self-employment of individual U.S.-based general partner that are subject to self-employment tax from box 14a of IRS Form 1065 Schedule K-1 and subtract (i) any section 179 expense deduction claimed in box 12; (ii) any unreimbursed partnership expenses claimed; and (iii) any depletion claimed on oil and gas properties. If this amount is less than zero, set this amount to zero.
- **Step 2:** If the amount from Step 1 is greater than the product of \$8,333 and the number of months in operation from 2019 through the end of 2020, set it to this

²⁰ If you have not completed your applicable 2020 return, fill it out.

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value.

- For **partnerships**, this cap applies separately to each general partner.
- **Step 3:** If the entity has employees, enter the amount computed from following the instructions from [FAQ 10 Step 1](#), otherwise enter 0.
- **Step 4:** Calculate the average monthly payroll costs (add Step 2 and Step 3 together and then divide that sum by the number of months in operation from 2019 through the end of 2020).
- **Step 5:** Multiply the average monthly payroll costs from Step 4 by 2.5.²¹

Your applicable income tax return (Form 1040 Schedule C, Form 1040 Schedule F, or Form 1065 (including K-1s)) from 2019 (if applicable) and 2020 must be provided to substantiate the applied-for Second Draw PPP loan amount. If you had employees, your IRS Form 941s and state quarterly wage unemployment insurance tax reporting form from each quarter the entity was in operation (or equivalent payroll processor records or IRS Wage and Tax Statements), along with documentation of any retirement and group health, life, disability, vision, and dental insurance contributions must be provided to substantiate the applied-for Second Draw PPP Loan amount. Additionally, a payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date. If you did not have employees, an invoice, bank statement, or book of record establishing you was in operation on February 15, 2020 must instead be provided.

12. Question: If I used payroll costs from the prior 12 months when computing my First Draw PPP Loan amount, can I continue to use those figures to compute my Second Draw PPP Loan amount?

Answer: No, payroll costs from the precise 12-month period prior to the First Draw PPP Loan cannot be used to compute the Second Draw PPP Loan amount. Any borrower that used payroll costs from the prior 12 months when computing its First Draw PPP Loan amount can calculate the amount for its Second Draw PPP Loan amount using calendar year 2019 or calendar year 2020 payroll costs.²² A borrower that used calendar year 2019 for its First Draw PPP Loan amount may continue to do so.

13. Question: Can I enter NAICS code 72 on my Second Draw PPP Loan application if the business activity code line was left blank on my business's most recently filed income tax return?

²¹ Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on the most recent income tax return (IRS Form 1040 Schedule C line B for self-employed who are not farmers or ranchers and Form 1120-S item B for partnerships) begins with 72.

²² Borrowers who are not self-employed (including sole proprietorships and independent contractors) are also permitted to use the precise 1-year period before the date on which the Second Draw Loan is made to calculate payroll costs if they choose not to use 2019 or 2020.

Answer: If an entry for this line is missing from your tax return, you should report the industry code that is most applicable to your business' primary business activity. If your business is in the Accommodation and Food Services sector (e.g., a hotel, restaurant, bar), you can only report a NAICS Code beginning with 72 if you can substantiate this with alternative documentation, such as permits or licenses issued by local governments that are unique to this sector.

14. Question: In addition to pre-tax employee contributions for health insurance, what are the other pre-tax employee contributions for fringe benefits that may have been excluded from IRS Form 941 Taxable Medicare wages & tips that is part of employee gross pay?

Answer: Employee contributions and deductions from pay for flexible spending arrangements (FSA) or other nontaxable benefits under a section 125 cafeteria plan, qualified transit or parking benefits (up to \$270 a month), and group life insurance (for up to \$50,000 of coverage) may have been excluded from IRS Form 941 Taxable Medicare wages & tips. However, pre-tax employee contributions to retirement plans are included in Taxable Medicare wages & tips and should not be added to that figure to arrive at gross pay.

15. Question: How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?

Answer: Payroll costs are calculated on a gross basis without regard to federal taxes imposed or withheld, such as the employee's and employer's share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees' pay. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer. However, payroll costs do not include the employer's share of payroll tax. For example, the wages of an employee who earned \$4,000 per month in gross wages, from which \$500 in federal taxes was withheld, count as \$4,000 in payroll costs. However, the employer-side federal payroll taxes imposed on the \$4,000 in wages are excluded from payroll costs under the statute.²³

16. Question: Is there a limit on the dollar amount of Second Draw PPP Loans a corporate

²³ The definition of "payroll costs" in the CARES Act, 15 U.S.C. 636(a)(36)(A)(viii), excludes "taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code of 1986 during the covered period". As described above, the SBA interprets this statutory exclusion to mean that payroll costs are calculated on a gross basis, without subtracting federal taxes that are imposed on the employee or withheld from employee wages. Unlike employer-side payroll taxes, such as employer-side taxes are ordinarily expressed as a reduction in employee take-home pay; their exclusion from the definition of payroll costs means payroll costs should not be reduced based on taxes imposed on the employee or withheld from employee wages. This interpretation is consistent with the text of the statute and advances the legislative purpose of ensuring workers remain paid and employed. Further, because the reference period for determining a borrower's maximum loan amount will largely or entirely precede the period during which borrowers will be subject to the restrictions on allowable uses of the loans, for purposes of the determination of allowable uses of loans and the amount of loan forgiveness, this statutory exclusion will apply with respect to such taxes imposed or withheld at any time, not only during such period.

As of January 19, 2021

group can receive?

Answer: Yes, businesses that are part of the same corporate group cannot receive Second Draw PPP Loans in a total amount of more than \$4 million. For purposes of this limit, businesses are part of a single corporate group if they are majority owned, directly or indirectly, by a common parent.