

# How do I calculate my PPP loan amount?

## [ESPAÑOL](#)

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The SBA uses the following formula to calculate the maximum amount you can borrow through the Paycheck Protection Program:

- One month of AVERAGE eligible payroll costs x 2.5 = **maximum PPP loan amount.**

**This is the only formula for computing the loan amount, regardless of how you are going to use the money.**

**If you consider the steps below, it will help you with a well documented PPP loan request.**

### **Step 1: Determine your payroll costs.**

Add up all eligible payroll costs before federal taxes over the past 12 months. You may use the calendar year, or the 12 month time frame between 4/1/2019 to 3/31/2020. Only include costs from employees who primarily live in the US, excluding independent contractors that your business has hired — they can apply for a PPP loan on their own. An independent contractor could be someone you paid cash or checks to and you did not withhold taxes. Generally, you would issue 1099s to these people, not W-2s. Payroll costs can include the employer portion of health insurance expenses, paid sick leave, and certain retirement benefits. See section below.

New and seasonal businesses also have the option of using these payroll costs instead:

- **Businesses that opened in 2020.** Add up monthly payroll costs between January 1, 2020 and February 29, 2020.
- **Seasonal businesses.** Add up the payroll costs for any consecutive 12 week period between May 2, 2019 and September 15, 2019.

### **Step 2: Subtract excess from salaries over \$100,000.**

The Paycheck Protection Program doesn't cover anything over \$100,000 for an individual employee's annual salary before federal income taxes. If none of your employees make over \$100,000 a year, skip ahead. Otherwise, you can follow these steps:

1. Subtract \$100,000 from the salary of each employee who makes over \$100,000 annually.
2. Add up the results.
3. Subtract that amount from the annual payroll cost you calculated in **Step 1**.

#### **How to subtract excess salaries for new and seasonal businesses**

If you have a new or seasonal business, follow these steps:

1. Subtract \$100,000 from each salary over \$100,000.
2. Add up the results.
3. Divide the result by 12.
4. Multiple it by the number of months your payroll costs cover in **Step 1**.
5. Subtract that amount from the payroll costs.

#### **Step 3: Calculate an average monthly payroll cost.**

Divide the results you calculated in **Step 2** by 12.

#### **Step 4: Calculate your maximum loan amount.**

Multiply the average monthly payroll cost you calculated in **Step 3** by 2.5.

If your business didn't receive an Economic Injury Disaster Loan (EIDL) that you used to cover payroll costs between January 31, 2020 and April 3, 2020, you're finished. Otherwise, there's one more step.

#### **Step 5: Add your EIDL balance.**

You're required to refinance any EIDL your business received to cover payroll costs during the coronavirus outbreak.

1. Add the EIDL balance to your maximum loan amount based on payroll, which you calculated in **Step 2**.
2. Subtract any advance you received on your EIDL — you don't have to repay this amount.

The resulting number is the maximum amount you can borrow through the Paycheck Protection Program.

#### **How to calculate your PPP loan amount as a self-employed borrower**

Self-employed individuals need to follow three steps to determine the maximum amount they can borrow:

1. Locate your annual net profit on your 2019 Form 1040 Schedule C, line 31.
2. Divide your annual net profit by 12 to calculate your average monthly net profit.
3. Multiply your average monthly net profit by 2.5.

If you have an Economic Injury Disaster Loan (EIDL) that wasn't issued during the COVID-19 pandemic, you can add it to your final amount in Step 3 to refinance it through the PPP.

### **Borrowers are responsible for calculating the loan amount**

According to the SBA, it's up to you, the borrower, to calculate your maximum loan amount when you apply for the PPP. In fact, it's one of the first steps of the application. And you'll have to back up that number with documentation. That's why it's essential to understand which costs count and which don't count. There are two major reasons for delay in PPP processing, not sending clear documentation regarding your calculation of the loan amount and not providing the appropriate documentation to support your calculations.

### **How to prove your payroll calculations**

The SBA allows you to use the following documents to confirm your payroll expenses — though some lenders might have more specific requirements.

- Payroll processor records
- Payroll tax filings
- W-3
- Form 1099-MISC for sole proprietorships
- Form 1040 Schedule C for self-employed individuals- this is required!
- Income and expense reports for sole proprietorships
- Bank statements

Lenders might accept other types of documentation of payroll costs, depending on the circumstances. Check with your lender to ensure you have all the correct documents when you apply.

Remember, the 2019 Schedule C is **REQUIRED** for sole proprietors. You may not have your taxes done yet. You may fill out a Sch C and submit it with your application **WITHOUT** filing your taxes yet. This is acceptable, however, make sure your Schedule C that you draft for the application process is not vastly different from the one you plan to file. In other words, be conservative, not optimistic. Having two vastly different Sch C could open you up to problems with PPP Loan forgiveness, or worse, IRS problems. see

### **What if I use a payroll provider?**

If your business relies on a professional employer organization (PEO) or other payroll provider to process payroll expenses, you might have to submit different documents. If you live in a state where you're required to report payroll provider data in your state taxes, submit the following documents — if possible:

- Schedule R, Form 941
- Allocation schedule for aggregate Form 941 filers
- Payroll provider Form 941
- Quarterly federal tax return

Otherwise, ask for a statement from your provider stating the wages and payroll taxes your company paid.

### **What's an eligible payroll cost?**

The following costs count when you calculate your PPP loan amount. When calculating your loan amount, use the cost before federal taxes.

- Salary, wages, commissions or compensation — up to \$100,000 annually
- Cash tips paid to employees or the equivalent
- Vacation, medical, family or sick leave costs
- Costs associated with losing an employee, like severance
- Group health care benefits, including premiums
- Retirement benefits
- State and local taxes on employee compensation

### **Ineligible payroll costs**

These costs do not count toward payroll calculations for a PPP loan:

- Employee compensation equivalent to an annual salary over \$100,000
- Federal payroll, income or railroad retirement taxes
- Compensation for employees with a primary residence outside the US
- Sick or family leave that qualifies for a tax credit under the Families First Coronavirus Response Act
- Payments made to independent contractors your company hired
- Owner distributions
- Shareholder draws

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