ARKANSAS CAPITAL
EMPOWERING ENTREPRENEURS

SBA Paycheck Protection Program (PPP)

Handbook for First and Second Draw Applicants

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UPDATES

1/27/21 – Step 2, Page 10
1/28/21 – Step 2, Page 19
2/19/21 – Page 13-14, Clarification of Revenue Calculations for Applicants with Business Affiliates

This handbook is provided as a tool to help guide applicants through the PPP origination process. It does not include all of the rules and regulations. Applicants are encouraged to use this handbook in conjunction with the rules and regulations provided by the Small Business Administration and the U.S. Department of Treasury.

Arkansas Capital Corporation is an equal opportunity lender.

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General Checklist for Submission

1. A completed SBA PPP 2483 or 2483-SD form.

   - The 2483 form is only for first time applicants to the PPP program.

   - The 2483-SD is only for applicants who received a PPP loan in the first draw (in 2020) and wish to apply for a second-draw PPP loan.

   (Note: These forms will ask for the applicant's NAICS code. This is the same number that the applicant uses for the "Business Activity Code" field on IRS tax returns.)

2. Evidence demonstrating that a borrower had employees for whom the borrower paid salaries and payrolls taxes on or around February 15, 2020 and/or evidence demonstrating that borrower was either an eligible self-employed individual, independent contractor, or sole proprietorship in operation on or around February 15, 2020.

3. For second draw loan applicants only: A calculation sheet that the applicant creates **and** supporting documentation illustrating 25% reduction in gross receipts.

4. A calculation sheet that the applicant creates **and** supporting documentation for the loan amount calculation.

5. The following is required by the Bank Secrecy Act (BSA):

   - A clean, readable copy of the Driver's License for all owners of 20% or more of the applicant business. For nonprofit organizations, this must be provided by the person responsible for signing the loan application. For non-profits, this should be provided for the person in the organization that has been designated to sign the loan documents.

   - A clean, readable copy of the business's Articles of Organization / Articles of Incorporation. Certificates of Good Standing will **not** be accepted. What is needed is what the applicant sent to its state government entity to receive certification of organization / incorporation. These articles **must** have a signature and a date.

   - A clean, readable copy of the applicant's signed and dated Operating Agreement or Bylaws. This will not apply to applicants who are self-employed.

6. Wiring instructions if the applicant would like loan funds (if approved) by direct deposit. If no wiring instructions are provided, the loan funds will be made by check and mailed to the address on the PPP application.

Eligibility Concerns

- More than 500 employees combined w/ affiliates (First Draw)
- More than 300 employees combined w/ affiliates (Second Draw)
- Business activity is illegal under Federal law (marijuana)
- Household employer (nannies/housekeepers)
- Owner of 20% or more of business with certain criminal issues
- Entity (including related parties) with federal debt that is currently delinquent or has defaulted within last seven years and caused a loss to the government
- "Business or organization not in operation on February 15, 2020"
- Business received or will receive Shuttered Venue Operator Grant program
- Business has permanently closed
- "Financial businesses primarily engaged in the business of lending, such as banks, finance companies, and factors (pawn shops, although engaged in lending, may qualify in some circumstances);"
- Passive businesses owned by developers and landlords (including apartments) that do not actively use or occupy the assets acquired or improved with the loan proceeds;
- Life insurance companies;
- Businesses located in a foreign country (businesses in the U.S. owned by aliens may qualify);
- Pyramid sale distribution plans;
- Private clubs and businesses which limit the number of memberships for reasons other than capacity;
- Government-owned entities (except for businesses owned or controlled by a Native American tribe);
- Loan packagers earning more than one third of their gross annual revenue from packaging SBA loans;
- "Businesses with an Associate who is incarcerated, on probation, on parole, or has been indicted for a felony or a crime of moral turpitude;"
- "Businesses in which the Lender or CDC, or any of its Associates owns an equity interest;"
- "Businesses which:
    - Present live performances of a prurient sexual nature; or,
    - Derive directly or indirectly more than de minimis gross revenue through the sale of products or services, or the presentation of any depictions or displays, of a prurient sexual nature;"
- Businesses primarily engaged in political or lobbying activities; and,
- Speculative businesses (such as oil wildcatting)

First Draw Calculations

The instructions provided in Step 1 for each of the following business classifications are the amounts applicants are to use in their calculations.

Self-Employed Without Employees

Step 1:

2019 IRS Form 1040 Schedule C Line 31 (net profit amount).

- If the amount is over $100,000, reduce to $100,000.
- If this amount is zero or less, the applicant is not eligible for a PPP loan.

Step 2:

Divide the amount from Step 1 by 12.

Step 3:

Multiply the amount from Step 2 by 2.5. This is your loan request amount.

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).

Self-Employed With Employees

Step 1:

- **2019 IRS Form 1040 Schedule C Line 31 (net profit amount)**
- **2019 IRS Form 941 Line 5c-Column 1 from each quarter**
- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from line 5c-Column 1
- Minus any amounts paid to any individual employee in excess of $100,000 and any employee whose principal place of residence is outside the U.S.
- **2019 Schedule C Line 14** attributable to employer contributions for employee group health, life, disability, vision, and dental insurance
- **2019 Schedule C Line 19** employer contributions to employee retirement plans
- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2:

Divide the amount from Step 1 by 12.

Step 3:

Multiply the amount from Step 2 by 2.5.

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).

Farmers and Ranchers Without Employees

Step 1:

2019 IRS Form 1040 Schedule F Line 9 (gross income)

- If the amount is over $100,000, reduce to $100,000.
- If this amount is zero or less, the applicant is not eligible for a PPP loan.

Step 2:

Divide the amount from Step 1 by 12.

Step 3:

Multiply the amount from Step 2 by 2.5. This is your loan request amount.

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).

Farmers and Ranchers With Employees

Step 1:

- **Difference between 2019 IRS Form 1040 Schedule F Line 9 (gross income)** and the sum of **Schedule F lines 15, 22, and 23** (for employee payroll)
- **2019 IRS Form 941 (or possibly Form 943) Line 5c-Column 1 from each quarter**
- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from line 5c-Column 1
- Minus any amounts paid to any individual employee in excess of $100,000 and any employee whose principal place of residence is outside the U.S.
- **2019 Schedule F Line 15** attributable to employer contributions for employee group health, life, disability, vision, and dental insurance
- **2019 Schedule F Line 23** employer contributions to employee retirement plans

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2:

Divide the amount from Step 1 by 12.

Step 3:

Multiply the amount from Step 2 by 2.5.

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).

Partnerships

Step 1:

- Compute net earnings from self-employment of individual U.S.-based general partner that are subject to self-employment tax from **IRS Form 1065 Schedule K-1 box 14a** 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 less than zero, set this amount at zero)

- **2019 IRS Form 941 Line 5c-Column 1 from each quarter**

- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from line 5c-Column 1

- Minus any amounts paid to any individual employee in excess of $100,000 and any employee whose principal place of residence is outside the U.S.

- **IRS Form 1065 Line 19** attributable to employee (but not partner) group health, life, disability, vision, and dental insurance

- **IRS Form 1065 Line 18** for employer contributions to employee (but not partner) retirement plans

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**.

Step 2:

Divide the amount from Step 1 by 12.

Step 3:

Multiply the amount from Step 2 by 2.5.

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).

S and C Corporations

Step 1:

- **2019 IRS Form 941 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 employees in excess of $100,000 and (ii) any amounts paid to any employee whose principal place of residence is outside the U.S.
- Portion of **IRS Form 1120 line 24 or IRS Form 1120-S line 18** attributable to employer group health, life, disability, vision, and dental insurance contributions
- **IRS Form 1120 line 23 or IRS Form 1120-S line 17** (employer retirement contributions)
- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2:

Divide the amount from Step 1 by 12.

Step 3:

Multiply the amount from Step 2 by 2.5. This is your loan request amount.

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).

Non-Profit Organizations

Step 1:

- **2019 IRS Form 941 line 5c-column 1 from each quarter**
- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Line 5c-Column 1

- Minus (i) any amounts paid to any individual employees in excess of $100,000 and (ii) any amounts paid to any employee whose principal place of residence is outside the U.S.

- **Portion of IRS Form 990 Part IX line 9** attributable to employer group health, life, disability, vision, and dental insurance contributions

- **IRS Form 990 Part IX line 8** (employer retirement contributions)

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2:

Divide the amount from Step 1 by 12.

Step 3:

Multiply the amount from Step 2 by 2.5.

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).

Non-profit Religious Institutions, Veterans Organizations, and Tribal Businesses

Step 1:

- **2019 IRS Form 941 line 5c-column 1 from each quarter**

- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Line 5c-Column 1

- Minus (i) any amounts paid to any individual employees 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

- 2019 employer retirement contributions

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2:

Divide the amount from Step 1 by 12.

Step 3:

Multiply the amount from Step 2 by 2.5.

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).

Corporation or Non-profit not in operation for the full one-year period preceding February 15, 2020 **(if not using payroll information for 2020; if using 2020, use applicable calculation elsewhere in this section)**

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:

Divide the amount from Step 1 by 2.

Step 3:

Multiply the amount from Step 2 by 2.5.

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).

Self-Employed or Partnership not in operation for the full one-year period preceding February 15, 2020 (I have filed or will file a Form 1040 Schedule C, Schedule F, or Form 1065 for 2020) **(if not using payroll information for 2020; if using 2020, use applicable calculation)**

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.

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).

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 partner/s (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 by 0.9235.

Documentation requirements are the same as above except a completed Form 1065 must be provided in place of Schedule C.

Other Possible Documentation

An applicant may provide IRS Form W-2s and IRS Form W-3 or third-party 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.

Guidance in this First Draw section 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. Documentation, including IRS forms, must be supplied for the selected reference period. If you are using 2020 amounts and have not yet completed a 2020 return, fill out the required portions and compute the values.

Revenue Reduction Calculation Considerations

(Second Draw Applicants ONLY)

Reference: https://home.treasury.gov/system/files/136/Second-Draw-PPP-Loans--How-Calculate-Revenue-Reduction-Maximum-Loan-Amounts-Including-Documentation-Provide1192021.pdf

Possible Period Comparison

All applicants may choose the following:

- Applicant must demonstrate 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.

Applicants not in business during first and second quarters but in operation during the third and fourth quarters of 2019:

- Applicant must demonstrate that gross receipts in any quarter of 2020 were at least 25 percent lower than during their third or fourth quarters of 2019.

Applicants 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.

Applicants 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.

Definition of Gross Receipts

For-Profit Businesses:

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 borrowers with affiliate entities (as indicated in question 3 of the Second Draw PPP Application and the required Addendum A):

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

  - 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.

SBA Affiliate Rules (from SBA 13 CFR 121.301):

- Concerns and entities are affiliates of each other when one controls or has the power to control the other, or a third party or parties controls or has the power to control both. It does not matter whether control is exercised, so long as the power to control exists.

  Affiliation under any of the circumstances described below is sufficient to establish affiliation for applicants for SBA's Business Loan, Disaster Loan, and Surety Bond Programs. For this rule, the Business Loan Programs consist of the 7(a) Loan Program, the Microloan Program, the Intermediary Lending Pilot Program, and the Development Company Loan Program ("504 Loan Program"). The Disaster Loan Programs consist of Physical Disaster Business Loans, Economic Injury Disaster Loans, Military Reservist Economic Injury Disaster Loans, and Immediate Disaster Assistance Program loans.

  The following principles apply for the Business Loan, Disaster Loan, and Surety Bond Guarantee Programs:

  - ***Affiliation based on ownership.*** For determining affiliation based on equity ownership, a concern is an affiliate of an individual, concern, or entity that owns or has the power to control more than 50 percent of the concern's voting equity. If no individual, concern, or entity is found to control, SBA will deem the Board of Directors or President or Chief Executive Officer (CEO) (or other officers, managing members, or partners who control the management of the concern) to be in control of the concern. SBA will deem a minority shareholder to be in control, if that individual or entity has the ability, under the concern's charter, by-laws, or shareholder's agreement, to prevent a quorum or otherwise block action by the board of directors or shareholders.

  - ***Affiliation arising under stock options, convertible securities, and agreements to merge.***

    In determining size, SBA considers stock options, convertible securities, and agreements to merge (including agreements in principle) to have a present effect on the power to control a concern. SBA treats such options, convertible securities, and agreements as though the rights granted have been exercised.

    Agreements to open or continue negotiations towards the possibility of a merger or a sale of stock at some later date are not considered "agreements in principle" and are thus not given present effect.

    Options, convertible securities, and agreements that are subject to conditions precedent which are incapable of fulfillment, speculative, conjectural, or unenforceable under state or Federal law, or where the probability of the transaction (or exercise of the rights) occurring is shown to be extremely remote, are not given present effect.

    An individual, concern or other entity that controls one or more other concerns cannot use options, convertible securities, or agreements to appear to terminate such control before actually doing so. SBA will not give present effect to individuals', concerns', or other entities' ability to divest all or part of their ownership interest in order to avoid a finding of affiliation.

- ***Affiliation based on management.*** Affiliation arises where the CEO or President of the applicant concern (or other officers, managing members, or partners who control the management of the concern) also controls the management of one or more other concerns. Affiliation also arises where a single individual, concern, or entity that controls the Board of Directors or management of one concern also controls the Board of Directors or management of one of more other concerns. Affiliation also arises where a single individual, concern or entity controls the management of the applicant concern through a management agreement.

- ***Affiliation based on identity of interes***t. Affiliation arises when there is an identity of interest between close relatives, as defined in 13 CFR 120.10, with identical or substantially identical business or economic interests (such as where the close relatives operate concerns in the same or similar industry in the same geographic area). Where SBA determines that interests should be aggregated, an individual or firm may rebut that determination with evidence showing that the interests deemed to be one are in fact separate.

- ***Affiliation based on franchise and license agreements.*** The restraints imposed on a franchisee or licensee by its franchise or license agreement generally will not be considered in determining whether the franchisor or licensor is affiliated with an applicant franchisee or licensee provided the applicant franchisee or licensee has the right to profit from its efforts and bears the risk of loss commensurate with ownership. SBA will only consider the franchise or license agreements of the applicant concern.

- ***Determining the concern's size.*** In determining the concern's size, SBA counts the receipts, employees (§ 121.201), or the alternate size standard (if applicable) of the concern whose size is at issue and all of its domestic and foreign affiliates, regardless of whether the affiliates are organized for profit.

- ***Exceptions to affiliation.*** For exceptions to affiliation, see 13 CFR 121.103(b).

For non-profit 501(c)(3) organizations, 501(c)(19) Veterans organizations, eligible nonprofit news organizations, eligible 501(c)(6) organizations, or eligible destination marketing organizations:

Gross receipts mean gross receipts within the 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 include but are not limited to:

- the gross amount received as contributions, gifts, grants, and similar amounts without reduction for the expenses of raising and collecting such amounts,
- the gross amount received as dues or assessments from members or affiliated organizations without reduction for expenses attributable to the receipt of such amounts,
- 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),
- the gross amount received from the sale of assets without reduction for cost or other basis and expenses of sale, and

- the gross amount received as investment income, such as interest, dividends, rents, and royalties.

Documentation

- 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 of How to Calculate document released by SBA on January 19th), 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.

Comparison When Using Tax Returns

- 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.

Second Draw Calculations

Applicants with a NAICS code that begin with 72, and are not seasonal or a new business entity, may use a multiplication of 3.5 to calculate their loan amount. All other entities are to use the 2.5 multiplier.

The instructions provided in Step 1 for each of the following business classifications are the amounts applicants are to use in their calculations.

Self-Employed Without Employees

Step 1

2019 IRS Form 1040 Schedule C Line 31 (net profit amount).

- If the amount is over $100,000, reduce to $100,000.
- If this amount is zero or less, the applicant is not eligible for a PPP loan.

Step 2

Divide the amount from Step 1 by 12

Step 3

Multiply the amount from Step 2 by 2.5

Self-Employed With Employees

Step 1

- **2019 IRS Form 1040 Schedule C Line 31** (net profit amount)
- **2019 IRS Form 941 Line 5c-Column 1 from each quarter**
- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from line 5c-Column 1
- Minus any amounts paid to any individual employee in excess of $100,000 and any employee whose principal place of residence is outside the U.S.
- **2019 Schedule C Line 14** attributable to employer contributions for employee group health, life, disability, vision, and dental insurance
- **2019 Schedule C Line 19** employer contributions to employee retirement plans
- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2

Divide the amount from Step 1 by 12

Step 3

Multiply the amount from Step 2 by 2.5

Farmers and Ranchers Without Employees

Step 1

2019 IRS Form 1040 Schedule F Line 9 (gross income)

- If the amount is over $100,000, reduce to $100,000.
- If this amount is zero or less, the applicant is not eligible for a PPP loan.

Step 2

Divide the amount from Step 1 by 12

Step 3

Multiply the amount from Step 2 by 2.5

Farmers and Ranchers With Employees

Step 1

- Difference between **2019 IRS Form 1040 Schedule F Line 9 (gross income)** and the sum of **Schedule F lines 15, 22, and 23** (for employee payroll)

- **2019 IRS Form 941 (or possibly Form 943) Line 5c-Column 1 from each quarter**

- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from line 5c-Column 1

- Minus any amounts paid to any individual employee in excess of $100,000 and any employee whose principal place of residence is outside the U.S.

- **2019 Schedule F Line 15** attributable to employer contributions for employee group health, life, disability, vision, and dental insurance
- **2019 Schedule F Line 23** employer contributions to employee retirement plans

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2

Divide the amount from Step 1 by 12

Step 3

Multiply the amount from Step 2 by 2.5

Partnerships

Step 1

- Compute net earnings from self-employment of individual U.S.-based general partner that are subject to self-employment tax from **IRS Form 1065 Schedule K-1 box 14a** 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 less than zero, set this amount at zero)

- **2019 IRS Form 941 Line 5c-Column 1 from each quarter**

- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from line 5c-Column 1

- Minus any amounts paid to any individual employee in excess of $100,000 and any employee whose principal place of residence is outside the U.S.

- **IRS Form 1065 Line 19** attributable to employee (but not partner) group health, life, disability, vision, and dental insurance

- **IRS Form 1065 Line 18** for employer contributions to employee (but not partner) retirement plans

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2

Divide the amount from Step 1 by 12

Step 3

Multiply the amount from Step 2 by 2.5

S and C Corporations

Step 1

- **2019 IRS Form 941 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 employees in excess of $100,000 and (ii) any amounts paid to any employee whose principal place of residence is outside the U.S.

- Portion of IRS Form **1120 line 24 or IRS Form 1120-S line 18** attributable to employer group health, life, disability, vision, and dental insurance contributions

- **IRS Form 1120 line 23 or IRS Form 1120-S line 17** (employer retirement contributions)

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2

Divide the amount from Step 1 by 12

Step 3

Multiply the amount from Step 2 by 2.5

Non-Profit Organizations

Step 1

- **2019 IRS Form 941 line 5c-column 1 from each quarter**

- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Line 5c-Column 1

- Minus (i) any amounts paid to any individual employees in excess of $100,000 and (ii) any amounts paid to any employee whose principal place of residence is outside the U.S.

- **Portion of IRS Form 990 Part IX line 9** attributable to employer group health, life, disability, vision, and dental insurance contributions

- **IRS Form 990 Part IX line 8** (employer retirement contributions)

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax **(from state quarterly wage reporting forms)**

Step 2

Divide the amount from Step 1 by 12

Step 3

Multiply the amount from Step 2 by 2.5

Non-profit Religious Institutions, Veterans Organizations, and Tribal Businesses

Step 1

- **2019 IRS Form 941 line 5c-column 1 from each quarter**

- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Line 5c-Column 1

- Minus
  - any amounts paid to any individual employees in excess of $100,000 and
  - 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

- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms)

Step 2

Divide the amount from Step 1 by 12

Step 3

Multiply the amount from Step 2 by 2.5

Corporation or Non-profit not in operation for the full one-year period preceding February 15, 2020

Step 1

- 2019 IRS Form 941 line 5c-column 1 from each quarter

- Plus any pre-tax employee contributions for health insurance or other fringe benefits excluded from Line 5c-Column 1

- Minus
  - 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,
  - 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

- Employer retirement contributions

- Employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms)

Step 2

Divide the amount from Step 1 by number of months in operation from 2019 through the end of 2020.

Step 3

Multiply the amount from Step 2 by 2.5

Self-Employed or Partnership not in operation for the full one-year period preceding February 15, 2020 (I have filed or will file a Form 1040 Schedule C, Schedule F, or Form 1065 for 2020)

Step 1

- **1040 Schedule C Line 31 net profit (for self-employed Schedule C filers)**

- **Form 1010 Schedule F line 9 gross income (for Self-employed farmer or rancher with no employees)**

- 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 (for Self-employed farmer or rancher with employees)**

- 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:
  - any section 179 expense deduction claimed in box 12;
  - any unreimbursed partnership expenses claimed; and,
  - any depletion claimed on oil and gas properties. If this amount is less than zero, set this amount to zero. **(Partnerships)**

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 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 in this section from **Corporation or Non-profit not in Operation for Full One-Year Period preceding February 15, 2020 Step 1**. Otherwise, enter 0.

Step 4

- Add Step 2 and 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.

Other Possible Documentation

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.

Guidance in this Second Draw section 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. If you are using 2020 amounts and you have not yet completed a 2020 return, fill it out and compute the value.

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