



Paycheck Protection Program (PPP): Breaking Down & Calculating Payroll Costs

MB&T COVID-19 Loan Relief Center
1-833-MBT-4SBA or 1-833-628-4722
Monday - Friday 9am-2pm
montecito.bank

What counts as payroll costs?

Payroll costs include:

- Compensation to employees whose principal place of residence is the United States, in the form of salary, wages, commissions, or similar compensation; cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips); amount is capped at \$100,000 on an annualized basis for each employee whose principal place of residence is the United States;
- Employee benefits including costs for vacation, parental, family, medical, or sick leave; allowance for separation or dismissal; payments required for the provisions of group health care benefits including insurance premiums; and payment of any retirement benefit;
- State and local taxes assessed on compensation; and
- For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment, capped at \$100,000 on an annualized basis for each employee.
- Seasonal Businesses may use Average Monthly Payroll from 2-15-19 to 6-30-19, and new businesses may use 1-1-20 to 2-29-20.

Does the PPP cover paid sick leave?

Yes, the PPP covers payroll costs, which include employee benefits such as costs for parental, family, medical, or sick leave. However, it is worth noting that the CARES Act expressly excludes qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (FFCRA) (Public Law 116–127). Learn more about the FFCRA's Paid Sick Leave Refundable Credit online.

Is there anything that is expressly excluded from the definition of payroll costs?

Yes. The Act expressly excludes the following:

- Any compensation of an employee whose principal place of residence is outside of the US;
- The compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary;
- Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020, including the employee's and employer's share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes, and income taxes required to be withheld from employees;
- Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116–127).

Do independent contractors count as employees for purposes of PPP loan calculations?

No, independent contractors have the ability to apply for a PPP loan on their own so they do not count for purposes of a borrower's PPP loan calculation.

How large can my loan be?

Loans can be for up to two months of your average monthly payroll costs from the last year plus an additional 25% of that amount. That amount is subject to a \$10 million cap. If you are a seasonal or new business, you will use different applicable time periods for your calculation. Payroll costs will be capped at \$100,000 annualized for each employee.

How do I calculate the maximum amount I can borrow? *(Based on SBA Interim Final Rule 4/2/2020.)*

1. Aggregate payroll costs (defined in questions above) from the last twelve months for employees whose principal place of residence is the United States.
2. Subtract any compensation paid to an employee in excess of an annual salary of \$100,000 and/or any amounts paid to an independent contractor or sole proprietor in excess of \$100,000 per year.
3. Average monthly payroll costs are calculated (the calculator divides the amount from Step 2 by 12).
4. Average monthly payroll costs from Step 3 are calculated (the calculator multiplies the amount in Step 3 by 2.5).
5. Add the outstanding amount, if you have one, of an Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020, less the amount of any "advance" under an EIDL COVID-19 loan (because it does not have to be repaid).

Paycheck Protection Program (PPP) Loan Calculator		
Annual Payroll Costs		
Compensation to employees	\$	
Vacation, Parental, family, medical, sick leave, separation, dismissal	\$	
Qualified Employee Benefits	\$	
Annual Payroll Cost	\$	
Less Compensation over \$100,000	\$	
Qualified Payroll Cost	\$	
Average Monthly Payroll Cost	\$	
2.5 times average monthly payroll	\$	
Outstanding EIDL Loan less amount of Advance	\$	
Loan Amount	\$	

Example 1: No employees make more than \$100,000	
Annual payroll	\$120,000
Average monthly payroll	\$10,000
Multiply by 2.5	\$25,000
Maximum loan amount	\$25,000

Example 2: Some employees make more than \$100,000	
Annual payroll	\$1,500,000
Subtract compensation amounts in excess of an annual salary of \$100,000	\$1,200,000
Average monthly qualifying payroll	\$100,000
Multiply by 2.5	\$250,000
Maximum loan amount	\$250,000

Example 3: No employees make more than \$100,000 Have an outstanding EIDL loan of \$10,000	
Annual payroll	\$120,000
Average monthly payroll	\$10,000
Multiply by 2.5	\$25,000
Add EIDL loan of \$10,000	\$10,000
Maximum loan amount	\$35,000

Example 4: Some employees make more than \$100,000 Have an outstanding EIDL loan of \$10,000	
Annual payroll	\$1,500,000
Subtract compensation amounts in excess of an annual salary of \$100,000	\$1,200,000
Average monthly qualifying payroll	\$100,000
Multiply by 2.5	\$250,000
Add EIDL loan of \$10,000	\$10,000
Maximum loan amount	\$260,000

What are acceptable forms for payroll verification?

The following documents are the simplest to use. We will let you know if additional documentation is required when we speak with you, or following a review of your application.

- If you are an S or C Corporation - Annual Summary from a Payroll Service, IRS Forms 941
- If you are a Partnership - Schedule K-1 (Form 1065), IRS Form 941
- If you are a Sole Prop - Schedule C (Form 1040 or 1040-SR), IRS Form 941
- If you are an Independent Contractor - 1099

Sample of Schedule K-1

651119

OMB No. 1545-0123

☐ Final K-1☐ Amended K-1

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2019

For calendar year 2019, or tax year

beginning / / 2019 ending / /

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number**B** Partnership's name, address, city, state, and ZIP code**C** IRS Center where partnership filed return ▶**D** ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See inst.)**F** Name, address, city, state, and ZIP code for partner entered in E. See instructions.**G** ☐ General partner or LLC member-manager ☐ Limited partner or other LLC member**H1** ☐ Domestic partner ☐ Foreign partner**H2** ☐ If the partner is a disregarded entity (DE), enter the partner's:

TIN _____ Name _____

I1 What type of entity is this partner? _____**I2** If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here ☐**J** Partner's share of profit, loss, and capital (see instructions):

Beginning

Ending

Profit	%		%
Loss	%		%
Capital	%		%

Check if decrease is due to sale or exchange of partnership interest . . ☐**K** Partner's share of liabilities:

Beginning

Ending

Nonrecourse . . . \$	\$
Qualified nonrecourse financing . . . \$	\$
Recourse . . . \$	\$

☐ Check this box if Item K includes liability amounts from lower tier partnerships.

L Partner's Capital Account Analysis

Beginning capital account . . . \$	_____
Capital contributed during the year . . . \$	_____
Current year net income (loss) . . . \$	_____
Other increase (decrease) (attach explanation) \$	_____
Withdrawals & distributions . . . \$ (_____)
Ending capital account . . . \$	_____

M Did the partner contribute property with a built-in gain or loss?☐ Yes ☐ No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning \$	_____
Ending \$	_____

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4a	Guaranteed payments for services		
4b	Guaranteed payments for capital		
4c	Total guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
6c	Dividend equivalents	17	Alternative minimum tax (AMT) items
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	18	Tax-exempt income and nondeductible expenses
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)		
11	Other income (loss)	19	Distributions
		20	Other information
12	Section 179 deduction		
13	Other deductions		
14	Self-employment earnings (loss)		

21 ☐ More than one activity for at-risk purposes***22** ☐ More than one activity for passive activity purposes*

*See attached statement for additional information.

For IRS Use Only

Sample of Schedule C

SCHEDULE C (Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business (Sole Proprietorship)

► Go to www.irs.gov/ScheduleC for instructions and the latest information.

► Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2019
Attachment
Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)

B Enter code from instructions

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify) ►

G Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on losses ☐ Yes ☐ No

H If you started or acquired this business during 2019, check here ☐

I Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☐ No

J If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked	<input type="checkbox"/>	1	
2	Returns and allowances		2	
3	Subtract line 2 from line 1		3	
4	Cost of goods sold (from line 42)		4	
5	Gross profit. Subtract line 4 from line 3		5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		6	
7	Gross income. Add lines 5 and 6		7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions).	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	
b	Other	16b		b	Deductible meals (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
				26	Wages (less employment credits)	26	
				27a	Other expenses (from line 48)	27a	
				b	Reserved for future use	27b	

28 **Total expenses** before expenses for business use of home. Add lines 8 through 27a

29 Tentative profit or (loss). Subtract line 28 from line 7

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions).

Simplified method filers only: enter the total square footage of: (a) your home: _____

and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30

31 **Net profit or (loss).** Subtract line 30 from line 29.

- If a profit, enter on both **Schedule 1 (Form 1040 or 1040-SR), line 3** (or **Form 1040-NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3**.

- If a loss, you **must** go to line 32.

32 If you have a loss, check the box that describes your investment in this activity (see instructions).

- If you checked 32a, enter the loss on both **Schedule 1 (Form 1040 or 1040-SR), line 3** (or **Form 1040-NR, line 13**) and on **Schedule SE, line 2**. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3**.

- If you checked 32b, you **must** attach **Form 6198**. Your loss may be limited.

32a ☐ All investment is at risk.

32b ☐ Some investment is not at risk.