

**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:

- o 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, up to \$100,000 per partner;
  - 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;
- o 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 5ccolumn 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;
- o 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);
- o 2019 employer contributions to employee (but not partner) retirement plans, if any (IRS Form 1065 line 18); and
- o 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.

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.

## SBA FAQ

*Second Draw Paycheck Protection Program (PPP) Loans: How to Calculate Revenue Reduction and Maximum Loan Amounts Including What Documentation to Provide Maximum Second Draw PPP Loan Amounts {Question #4}*

AS of January 19, 2021