



How to calculate your PPP loan amount

Method 3: Schedule C, with employees

(Updated calculation – March 2021)

What we will cover

- What documents you'll need to gather
- How to calculate your loan amount
- Example

Gather the following documents

- 2019 Schedule C or 2020 Schedule C

If you are using 2020 to calculate payroll costs and have not yet filed a 2020 tax return, please complete the 2020 Schedule C form to the best of your ability and compute the value. The loan calculation is based on Schedule C Line 7 minus lines 14, 19, and 26 (shown here)

The image shows a portion of the 2020 Schedule C (Form 1040) form. The title is "SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)". It includes the Department of the Treasury Internal Revenue Service (99) logo and the year 2020. The form is divided into several sections: A (Principal business or profession), B (Enter code from instructions), C (Business name), D (Employer ID number), E (Business address), F (Accounting method), G (Material participation), H (Started or acquired during 2020), I (Payments in 2020), and J (Required Form(s) 1099). Below these are Part I (Income) and Part II (Expenses). Part I includes lines 1 through 7, and Part II includes lines 8 through 21. The form is partially filled out with blue lines and numbers.

Gather the following documents

Employee payroll can come from one of the following:

- Annual payroll from payroll processor records (payroll reports can be from companies such as Paychex, ADP, Justworks, Gusto, and many others).
- IRS Form 940. Box #3 will be used for the calculation as shown here

Form **940 for 2020: Employer's Annual Federal Unemployment (FUTA) Tax Return** 850113
Department of the Treasury -- Internal Revenue Service OMB No. 1545-0028

Employer identification number (EIN) -
Name (not your trade name)
Trade name (if any)
Address
Number Street Suite or room number
City State ZIP code
Foreign country name Foreign provincial/county Foreign postal code

Type of Return
(Check all that apply.)
 a. Amended
 b. Successor employer
 c. No payments to employees in 2020
 d. Final: Business closed or stopped paying wages
Go to www.irs.gov/Form940 for instructions and the latest information.

Read the separate instructions before you complete this form. Please type or print within the boxes.

Part 1: Tell us about your return. If any line does NOT apply, leave it blank. See instructions before completing Part 1.

1a If you had to pay state unemployment tax in one state only, enter the state abbreviation 1a
1b If you had to pay state unemployment tax in more than one state, you are a multi-state employer 1b Check here. Complete Schedule A (Form 940).
2 If you paid wages in a state that is subject to CREDIT REDUCTION 2 Check here. Complete Schedule A (Form 940).

Part 2: Determine your FUTA tax before adjustments. If any line does NOT apply, leave it blank.

3 Total payments to all employees 3 .
4 Payments exempt from FUTA tax 4 .

Gather the following documents

- IRS Form 941 for Q1-Q4. Line 5c-Column 1 (shown below) will be added for each quarter. You will also need to supply State quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or 2020

Form **941 for 2020: Employer's QUARTERLY Federal Tax Return** 950120
 (Rev. July 2020) Department of the Treasury — Internal Revenue Service OMB No. 1545-0029

Employer identification number (EIN) -
 Name (not your trade name)
 Trade name (if any)
 Address
 Number Street Suite or room number
 City State ZIP code
 Foreign country name Foreign province/county Foreign postal code

Report for this Quarter of 2020
 (Check one.)
 1: January, February, March
 2: April, May, June
 3: July, August, September
 4: October, November, December
 Go to www.irs.gov/Form941 for instructions and the latest information.

Read the separate instructions before you complete Form 941. Type or print within the boxes.

Part 1: Answer these questions for this quarter.

1 Number of employees who received wages, tips, or other compensation for the pay period including: Sept. 12 (Quarter 3) or Dec. 12 (Quarter 4) 1

2 Wages, tips, and other compensation 2

3 Federal income tax withheld from wages, tips, and other compensation 3

4 If no wages, tips, and other compensation are subject to social security or Medicare tax Check and go to line 6.

	Column 1	Column 2
5a Taxable social security wages	<input type="text"/>	<input type="text"/>
5a (i) Qualified sick leave wages	<input type="text"/>	<input type="text"/>
5a (ii) Qualified family leave wages	<input type="text"/>	<input type="text"/>
5b Taxable social security tips	<input type="text"/>	<input type="text"/>
5c Taxable Medicare wages & tips <input type="text"/>	<input type="text"/>	<input type="text"/>
5d Taxable wages & tips subject to Additional Medicare Tax withholding <input type="text"/>	<input type="text"/>	<input type="text"/>

Gather the following documents

- IRS Form 1099-MISC detailing nonemployee compensation received (box 7), invoice, bank statement, or book of record that establishes you are self-employed.
- You must provide a 2020 invoice, bank statement, or book of record to establish you were in operation on or around February 15, 2020.

Follow these steps to calculate

Step 1

Compute 2019 or 2020 payroll (using the same year for all items) by adding the following

Your 2019 or 2020 Form 1040
Schedule C Line 7 minus lines
14, 19, and 26

- If you are using 2020 and have not yet filed a 2020 return, fill it out and compute the value)
- This figure can be up to \$100,000 on an annualized basis, as prorated for the period during which the payments are made or the obligation to make the payments is incurred. If this amount is over \$100,000, reduce it to \$100,000.
- If this amount is less than zero, set this amount at zero

Follow these steps to calculate

Step 1

Compute 2019 or 2020 payroll (using the same year for all items) by adding the following

2019 or 2020 gross wages and tips paid to your employees

- Only include employees whose principal residence is in the U.S.
- Compute this by:
 - Using your 2019 or 2020 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
 - Subtract any amounts paid to any individual employee in excess of \$100,000 on an annualized basis, as prorated for the period during which the payments are made or the obligation to make the payments is incurred and any amounts paid to any employee whose principal place of residence is outside the U.S.

Follow these steps to calculate

Step 1

Compute 2019 or 2020 payroll (using the same year for all items) by adding the following

2019 or 2020 employer
contributions

This includes contributions to

- Employee group health, life, disability, vision and dental insurance (portion of IRS Form 1040 Schedule C line 14 attributable to those contributions)
- Retirement contributions (Form 1040 Schedule C line 19)
- State and local taxes assessed on employee compensation (primarily under state laws commonly referred to as the State Unemployment Tax Act or SUTA from state quarterly wage reporting forms)

Follow these steps to calculate

Step 1 Summary

Compute 2019 or 2020 payroll (using the same year for all items) by adding the following:

- Your 2019 or 2020 Form 1040 Schedule C Line 7 minus lines 14, 19, and 26
 - 2019 or 2020 gross wages and tips paid to your employees
 - 2019 or 2020 employer contributions

Step 2

Calculate the average monthly payroll amount (divide the amount from Step 1 by 12)

Step 3

Multiply the average monthly net profit amount from Step 2 by 2.5. *If is your second PPP loan and your business is assigned a NAICS code beginning with 72 (this is located in box B on the Schedule C), you can multiply by 3.5 instead of 2.5*

Example #1

Schedule C Line 7 minus lines 14, 19, and 26 is \$48,000

Annual employee payroll: \$120,000

Add \$48,000 and \$120,000 to get total payroll: \$168,000

Divide \$168,000 by 12 to get average monthly payroll: \$14,000

Multiply \$14,000 by 2.5 = \$30,000

Maximum loan amount is \$30,000

Example #2

Schedule C Line 7 minus lines 14, 19, and 26 is \$110,000

Annual employee payroll: \$120,000

The Schedule C is capped at \$100,000

Add \$100,000 and \$120,000 to get total payroll: \$220,000

Divide \$220,000 by 12 to get average monthly payroll: \$18,333

Multiply \$18,333 by 2.5 = \$45,833

Maximum loan amount is \$45,800 (rounded to the nearest hundred for accounting and documentation purposes)

Example #3

Schedule C Line 7 minus lines 14, 19, and 26 is (\$10,000)

Annual employee payroll: \$120,000

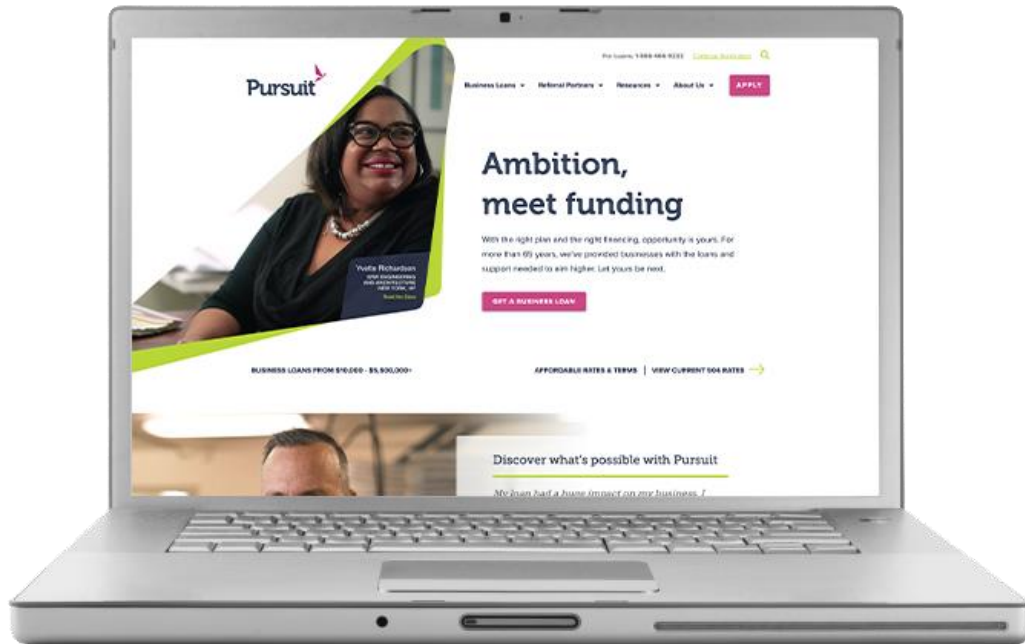
The Schedule C is set at \$0

Divide \$120,000 by 12 to get average monthly payroll: \$10,000

Multiply \$10,000 by 2.5 = \$25,000

Maximum loan amount is \$25,000

Helpful Pursuit resources



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