

# Estimating Your Paycheck Protection Program Loan Amount

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**I**f you're a small-business owner, sole-proprietor, freelancer, or independent contractor, you may be wondering just how much money you are eligible to borrow under the Paycheck Protection Program (PPP).

For those unfamiliar with the Paycheck Protection Program, it is part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law on Friday, March 27, 2020. As of April 3, businesses with fewer than 500 employees, and other entities that qualify as *small businesses*, are eligible for loans of up to \$10 million to keep them afloat and their workers paid for up to eight (8) weeks, without having to pay back the portion of the loan used to cover payroll and other qualified costs – mortgage interest (or rent) and utilities.



The short answer to how much money your business may be eligible to borrow under the Paycheck Protection Program is this:

- You can borrow up to 2.5 times your monthly payroll costs or up to \$10 million, whichever is less; however,
- When you apply for a PPP loan, the bank will want a more precise estimate of your payroll costs and other qualified costs.

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In this Stees, Walker & Company, LLP singlet, we provide some general guidance on estimating your Paycheck Protection Program loan amount based on our interpretation of law. Your bank (or your accountant if you're not a client of our San Diego-based tax planning firm) can help you determine the exact amount based on your bank's interpretation of the law.

### Calculate the Maximum Amount You Can Borrow

The Small Business Administration provides the following step-by-step instructions for calculating the maximum amount you can borrow under the Paycheck Protection Program:

1. Aggregate payroll costs from the last 12 months for employees whose principal place of residence is the United States. Payroll costs include the following:
  - Compensation to employees – whose principal place of residence is the United States – in the form of salary, wages, commissions, or similar cash 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)
  - Payment for vacation, parental, family, medical, or sick leave
  - Allowance for separation or dismissal
  - Payment for the provision of employee benefits such as group health care coverage (including insurance premiums) and retirement
  - Payment of state and local taxes assessed on compensation of employees
2. Subtract any compensation paid to an employee in excess of an annual salary of \$100,000 and/or any amounts paid to a sole proprietor or an independent contractor in excess of \$100,000 per year. (**Note:** The \$100,000 per-employee compensation cap applies *only* to wages and salaries paid. When calculating payroll costs, you can add your contributions to employee retirement and health care benefits, and payments of state and local payroll taxes, on top of that \$100,000 salary limit.)
3. Divide the result from Step 2 by 12 to determine your monthly payroll costs.
4. Multiply the result from Step 3 by 2.5, because the maximum amount you can borrow under PPP is two and a half times your monthly payroll costs.
5. Add the amount of any Economic Injury Disaster Loan (EIDL) that you want to refinance with the PPP loan. (**Note:** If you received an SBA EIDL loan from January 31, 2020 through April 3, 2020, you can apply for a PPP loan. If your EIDL loan was not used for payroll costs, it does not affect your eligibility for a PPP loan. If your EIDL loan was used for payroll costs, your PPP loan must be used to refinance your EIDL loan.) Proceeds from any advance up to \$10,000 on an Economic Injury Disaster Loan will be deducted from the loan forgiveness amount on the Paycheck Protection Program loan.

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**Example 1:** No employees earn more than \$100,000

- Annual payroll: \$120,000
- Average monthly payroll:  $\$120,000/12 = \$10,000$
- Maximum loan amount:  $\$10,000 \times 2.5 = \$25,000$

**Example 2:** Some employees earn more than \$100,000

- Annual payroll: \$1,500,000
- Compensation in excess of \$100,000 annual salary cap: \$300,000
- Payroll costs:  $\$1,500,000 - \$300,000 = \$1,200,000$
- Average monthly payroll:  $\$1,200,000/12 = \$100,000$
- Maximum loan amount:  $\$100,000 \times 2.5 = \$250,000$

**Example 3:** No employees make more than \$100,000, outstanding EIDL loan of \$10,000

- Annual payroll: \$120,000
- Average monthly payroll:  $\$120,000/12 = \$10,000$
- Maximum loan amount:  $\$10,000 \times 2.5 + \$10,000 = \$35,000$

**Example 4:** Some employees make more than \$100,000, outstanding EIDL loan of \$10,000

- Annual payroll: \$1,500,000
- Compensation in excess of \$100,000 annual salary cap: \$300,000
- Payroll costs:  $\$1,500,000 - \$300,000 = \$1,200,000$
- Average monthly payroll:  $\$1,200,000/12 = \$100,000$
- Maximum loan amount:  $\$100,000 \times 2.5 + \$10,000 = \$260,000$

**Example 5:** Self-employed with annual gross earnings of \$140,000 and \$20,000 in business expenses

- Annual payroll:  $\$140,000 - \$20,000 = \$120,000$  (net earnings)
- Compensation in excess of \$100,000 annual salary cap: \$20,000
- Payroll costs:  $\$120,000 - \$20,000 = \$100,000$
- Average monthly payroll:  $\$100,000/12 = \$8,333.33$
- Maximum loan amount:  $\$8,333.33 \times 2.5 = \$20,833.33$

**Example 6:** Annual cash compensation \$300,000, no employees earn more than \$100,000, you paid \$25,000 annually in health insurance and withheld \$15,000 annually in state and local taxes

- Annual payroll:  $\$300,000 + \$25,000 + \$15,000 = \$340,000$
- Average monthly payroll:  $\$340,000/12 = \$28,333.33$
- Maximum loan amount:  $\$28,333.33 \times 2.5 = \$70,833.33$

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## Calculate a More Precise Amount

The maximum amount you can borrow is 2.5 times your average monthly payroll for a reason: the PPP anticipates that no more than 25 percent of the loan be used for non-payroll costs, which are costs to keep the business afloat, such as mortgage interest or rent and utilities. If you prefer a more precise estimate of your loan amount, so you won't have to pay back as much, multiply your average monthly payroll amount by 2.0 instead of 2.5 and add in two months of rent (or mortgage interest) and two months of utility costs.

Although you can certainly borrow less than your maximum under the PPP, consider borrowing maximum, because you can take out only one loan under the PPP, and the interest rate is only 1 percent.

Here at Stees, Walker & Company, LLP, we encourage you to consult with your bank and accountant to calculate your maximum loan amount under the Paycheck Protection Program. If you are one of our clients, we can assist you with the loan process and help in other ways to prepare you for the challenging days ahead.

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**Disclaimer:** *The information in this singlet about the loan amount your business may qualify for under the Payroll Protection Program is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this post should be construed as financial advice from the staff at Stees, Walker & Company, LLP, nor is this the information contained in this post intended to be a substitute for financial counsel on any subject matter or intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this post should act or refrain from acting on the basis of any information included in, or accessible through, this post without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.*



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