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*(This information is current as of January 22, 2021)*

**Highlighted items** reflect new or revised FAQ due to new SBA Guidance or Law

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**(a) What is the Second Draw PPP Loan Program?**

Under section 7(a)(37) of the Small Business Act (15 U.S.C. 636(a)(37)), SBA is authorized to guarantee Paycheck Protection Program Second Draw Loans (“Second Draw PPP Loans”).

**(b) What requirements apply to Second Draw PPP Loans?**

Second Draw PPP Loans are subject to SBA’s and Treasury’s consolidated interim final rule that implements the Paycheck Protection Program (Consolidated First Draw PPP Interim Final Rule) and all PPP loan program requirements, except as otherwise provided in this interim rule, including but not limited to the following terms:

- (i) The guarantee percentage is 100 percent.
- (ii) No collateral will be required.
- (iii) No personal guarantees will be required.
- (iv) (iv) The interest rate will be 100 basis points or one percent, calculated on a non-compounding, non-adjustable basis.
- (v) (v) The maturity is five years.
- (vi) (vi) All loans will be processed by all lenders under delegated authority and lenders will be permitted to rely on certifications of the borrower in order to determine eligibility of the borrower and the use of loan proceeds.

**Does SBA’s Frequently Asked Question and other guidance apply to Second Draw PPP Loans?**

Yes. Frequently Asked Questions and other guidance issued by SBA or by SBA in consultation with Treasury with respect to PPP loans under section 7(a)(36) of the Small Business Act (15 U.S.C. 636(a)(36)) (“First Draw PPP Loans”) apply to Second Draw PPP Loans, except as otherwise provided in this section.

**(c) Who is eligible for a Second Draw PPP Loan?**

Subject to subsection (e) of this section, below, the following applicants are eligible for Second Draw PPP Loans:

(1) An applicant is eligible for a Second Draw PPP Loan if it is a business concern, independent contractor, eligible self-employed individual, sole proprietor, nonprofit organization eligible for a First Draw PPP Loan, veterans organization, Tribal business concern, housing cooperative, small agricultural cooperative, eligible 501(c)(6) organization or destination marketing organization, or an eligible nonprofit news organization<sup>1</sup> that:

(i) previously received a First Draw PPP loan in accordance with the eligibility criteria in the Consolidated First Draw PPP Interim Final Rule;

(ii) has used, or will use, the full amount of its First Draw PPP Loan (including the amount of any increase on such First Draw PPP Loan) on authorized uses under subsection (B)(11) of the Consolidated First Draw PPP Interim Final Rule on or before the expected date on which the Second Draw PPP Loan will be disbursed;<sup>2</sup>

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<sup>1</sup> All terms in this subsection have the same definitions as in sections 7(a)(36) and (37) of the Small Business Act and the Consolidated First Draw PPP Interim Final Rule, as applicable.

<sup>2</sup> A lender must make disbursement of the loan within ten calendar days of loan approval.

(iii) employs not more than 300 employees, unless it satisfies the alternative criteria for businesses with a North American Industry Classification System (“NAICS”) code beginning with 72 and eligible news organizations with more than one physical location described in subsection (c)(3) or (c)(4) of this section; and

(iv) (A) experienced a reduction in revenue in calendar year 2020, measured as follows:

(1) the applicant had gross receipts during the first, second, third, or fourth quarter in 2020 that demonstrate at least a 25 percent reduction from the applicant’s gross receipts during the same quarter in 2019 (for example, an applicant that had gross receipts of \$50,000 in the second quarter of 2019 and had gross receipts of \$30,000 in the second quarter of 2020 experienced a 40 percent revenue reduction between these two quarters);

(2) if the applicant was not in business during the first or second quarter of 2019, but was in business during the third and fourth quarters of 2019, the applicant had gross receipts during the first, second, third, or fourth quarter of 2020 that demonstrate at least a 25 percent reduction from the applicant’s gross receipts during the third or fourth quarter of 2019 (for example, an applicant that had gross receipts of \$50,000 in the third quarter of 2019 and had gross receipts of \$30,000 in the third quarter of 2020—demonstrating a reduction of 40 percent from the applicant’s gross receipts during the third quarter in 2019);

(3) if the applicant was not in business during the first, second, or third quarter of 2019, but was in business during the fourth quarter of 2019, the applicant had gross receipts during the first, second, third, or fourth quarter of 2020 that demonstrate at least a 25 percent reduction from the fourth quarter of 2019 (for example, an applicant that had gross receipts of \$50,000 in the fourth quarter of 2019 and had gross receipts of \$30,000 in the fourth quarter of 2020—demonstrating a reduction of 40 percent from the applicant’s gross receipts during the fourth quarter in 2019); or

(4) if the applicant was not in business during 2019, but was in operation on February 15, 2020, the applicant had gross receipts during the second, third, or fourth quarter of 2020 that demonstrate at least a 25 percent reduction from the gross receipts of the entity during the first quarter of 2020 (for example, an applicant that had gross receipts of \$50,000 in the first quarter of 2020 and had gross receipts of \$30,000 in the fourth quarter of 2020 – demonstrating a reduction of 40 percent from the applicant’s gross receipts during the first quarter in 2020).

(B) An applicant that was in operation in all four quarters of 2019 is deemed to have experienced the revenue reduction in subsection (c)(1)(iv)(A)(1) if it experienced a reduction in annual receipts of 25 percent or greater in 2020 compared to 2019 and the borrower submits copies of its annual tax forms substantiating the revenue decline.

(2)(i) Gross receipts includes all revenue in whatever form received or accrued (in accordance with the entity’s accounting method) from whatever source, including from the sales of products or services, interest, dividends, rents, royalties, fees, or commissions, reduced by returns and allowances. Generally, receipts are considered “total income” (or in the case of a

sole proprietorship, independent contractor, or self-employed individual “gross income”) plus “cost of goods sold,” and excludes net capital gains or losses as these terms are defined 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 and excluding 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.

(ii) Gross receipts of affiliates are calculated as follows:

(A) Gross receipts of a borrower with affiliates is calculated by adding the gross receipts of the business concern with the gross receipts of each affiliate.

(B) 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.

(C) 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.

(D) All terms in this subsection shall have the meaning attributed to them by the IRS.

(iii) For an eligible nonprofit organization, a veterans organization, an eligible nonprofit news organization, an eligible 501(c)(6) organization, or eligible destination marketing organization, gross receipts means gross receipts within the meaning of section 6033 of the Internal Revenue Code of 1986.

(iv) The amount of any forgiven First Draw PPP Loan shall not be included toward any borrower's gross receipts.

(3) Any business concern that has more than one physical location and that employs not more than 300 employees per physical location is eligible to receive a Second Draw PPP Loan if it is assigned a NAICS code beginning with 72 at the time of loan disbursement and otherwise meets the eligibility criteria in subsection (c)(1).

(4) Any business concern, or any station which broadcasts pursuant to a license granted by the Federal Communications Commission under title III of the Communications Act of 1934 (47 U.S.C. 301 et seq.),

that has more than one physical location and that employs not more than 300 employees per physical location is eligible to receive a Second Draw PPP Loan if it meets the eligibility criteria in subsection (c)(1) above and: (1) is majority owned or controlled by a business concern that is assigned a NAICS code beginning with 511110 or 5151 or, with respect to a public broadcasting entity (as defined in section 397(11) of the Communications Act of 1934 (47 U.S.C. 397(11))), has a trade or business that falls under such a code; and (2) makes a good faith certification that proceeds of the loan will be used to support expenses at the component of the organization that produces or distributes locally focused or emergency information.

**What are “gross receipts” for the purpose of determining eligibility for a Second Draw PPP Loan?**

For a **for-profit business**, 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 a nonprofit 501(c)(3) organization, a 501(c)(19) veterans organization, an eligible nonprofit news organization, an eligible 501(c)(6) organization, or an eligible destination marketing organization,** gross receipts means 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” includes, but is not limited to:

- (i) the gross amount received as contributions, gifts, grants, and similar amounts without reduction for the expenses of raising and collecting such amounts,
- (ii) the gross amount received as dues or assessments from members or affiliated organizations without reduction for expenses attributable to the receipt of such amounts,
- (iii) 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),
- (iv) the gross amount received from the sale of assets without reduction for cost or other basis and expenses of sale, and
- (v) the gross amount received as investment income, such as interest, dividends, rents, and royalties.

Gross receipts of a borrower's affiliates (unless a waiver of affiliation applies<sup>3</sup>) are calculated by adding the gross receipts of the business concern with the gross receipts of each affiliate.<sup>4</sup>

For more information on what constitutes gross receipts by entity type, see FAQs below.

**For all entity types (e.g., for-profit businesses and nonprofit organizations), do “gross receipts” include PPP Loan proceeds that are forgiven (or EIDL advances)?**

No. The amount of any forgiven First Draw PPP Loan or any EIDL advance, which are not subject to federal income tax, is not included in the calculation of “gross receipts”.

**For all entity types (e.g., for-profit businesses and nonprofit organizations), do “gross receipts” include grants received under Wisconsin’s We’re All In program?**

WBA generally does not believe grant money would count in definition of gross receipts. However, the determination may also depend on the type of grant money received so checking with the business' accountant to determine whether the money was classified as “income” would be a good idea. Likely will depend upon how business has treated the grant in its business tax treatment/records. Also, for reference, on WI DOR's website regarding All In Grants, see item #24 regarding where DOR states the grants are considered taxable income.

<https://www.revenue.wi.gov/Pages/FAQS/SmallBusinessGrantProgram.aspx#passive24>

The information should be helpful for borrower in his/her discussion with their accountant when determining what the business should consider as gross receipts.

**What reference periods can be used to determine whether the applicant can demonstrate at least a 25 percent gross receipts reduction in order to qualify for a Second Draw PPP loan?**

The appropriate reference periods depend on how long the applicant has been in business:

- For all applicants, except those satisfying the conditions set forth below, the applicant must demonstrate that 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.
- For entities not in business during the first and second quarters of 2019 but in operation during the third and fourth quarters of 2019, applicants must demonstrate that gross receipts in any quarter of 2020 were at least 25 percent lower than during either the third or fourth quarters of 2019.

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<sup>3</sup> See subsection (d) of the interim final rule titled “Business Loan Program Temporary Changes; Paycheck Protection Program Second Draw Loans” posted on SBA's website January 6, 2021 (86 FR 3712) and as is outlined in (d) of this FAQ document.

<sup>4</sup> 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.

- For entities 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.
- For entities 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.

**What documentation do I need to provide to corroborate that my entity sustained at least a 25 percent reduction in gross receipts?**

The following are the primary sets of documentation applicants can provide to substantiate their certification of a 25 percent gross receipts reduction (only one set is required):

- 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), 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.

**If I use my entity's annual income tax returns to demonstrate a gross receipts reduction of at least 25 percent, what amounts do I use to calculate gross receipts?**

The amounts required to compute gross receipts varies by the entity tax return type:<sup>5</sup>

- For self-employed individuals other than farmers and ranchers (IRS Form 1040 Schedule C): sum of line 4 and line 7<sup>6</sup>
- For self-employed farmers and ranchers (IRS Form 1040 Schedule F): sum of lines 1b and 9

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<sup>5</sup> Any of the following included in the specific tax form lines must be excluded from the computation and annotated on the return: 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 and excluding 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. In particular, for tax returns that include sales tax as income and then as a deduction, annotate next to the "taxes and license" line of the return the amount of such taxes that were included in income.

<sup>6</sup> If you file multiple Schedule C forms on the same Form 1040, you must include and sum across all of them.

- 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.

**I am applying for a Second Draw PPP Loan amount greater than \$150,000. When do I need to provide the documentation to substantiate the reduction in gross receipts?**

For a Second Draw PPP Loan amount greater than \$150,000, the applicant must provide documentation substantiating the reduction in gross receipts with its Second Draw Borrower Application Form (SBA Form 2483-SD or lender's equivalent form). The documentation must support the amounts provided in the application.

**I am an applicant for a Second Draw PPP Loan amount of \$150,000 or less. When do I need to provide the documentation to substantiate the reduction in gross receipts?**

For a Second Draw PPP Loan amount of \$150,000 or less, the borrower must provide documentation substantiating the reduction in gross receipts before or at the time the borrower seeks loan forgiveness (or upon SBA request). The documentation must clearly identify both of the reference quarters (if not using annual comparison), must contain the gross receipts amounts for both quarters, and support the amounts provided (Payroll documentation to substantiate the amount of the loan requested must still be provided with the Second Draw PPP Loan application, see the FAQs later in this document for further information.)

Notwithstanding SBA's instruction regarding this topic, WBA believes it is a best practice for lender to require that documentation at time of loan origination so that everyone is on the same page and expectations are set with borrower upfront; however, as outlined directly above, the information must be provided before submission of a forgiveness application.

**Second Draw PPP Loan request requires applicant have at least a 25 percent reduction in gross receipts in at least one quarter. Is applicant able to use a fiscal quarter or a calendar quarter?**

SBA has confirmed, quarters are calendar quarters only.

**Can I document my reduction in gross receipts with income tax returns if my entity files taxes on the basis of a fiscal year that differs from the calendar year?**

Entities that use a fiscal year to file taxes may document a reduction in gross receipts with income tax returns only if their fiscal year contains all of the second, third, and fourth quarters of the calendar year (i.e., have a fiscal year start date of February 1, March 1, or April 1).

**(d) How do SBA's affiliation rules affect an applicant's eligibility for a Second Draw PPP Loan?**

(1) Eligibility for Second Draw PPP Loans is governed by the same affiliations rules (and waivers) as First Draw PPP Loans, except as described in subsection (d)(2).

(2) The affiliation rules under 13 CFR 121.301(f) are waived with respect to eligibility for a Second Draw PPP Loan for:

(i) any business concern with not more than 300 employees that, as of the date on which the covered loan is disbursed, is assigned a NAICS code beginning with 72; and

(ii) (A) any business concern (including any station which broadcasts pursuant to a license granted by the Federal Communications Commission under title III of the Communications Act of 1934 (47 U.S.C. 301 et seq.) without regard for whether such a station is a concern as defined in 13 C.F.R. § 121.105, or any successor thereto) that employs not more than 300 employees, per physical location of such business concern and is majority owned or controlled by a business concern that is assigned a NAICS code beginning with 511110 or 5151; or

(B) any nonprofit organization that is assigned a NAICS code beginning with 5151.

**(e) Who is not eligible for a Second Draw PPP Loan?**

An applicant is not eligible for a Second Draw PPP Loan, even if it meets the eligibility requirements of subsection (c) above, if the applicant is:

(1) excluded from eligibility under the Consolidated First Draw PPP interim final rule;

(2) a business concern or entity primarily engaged in political activities or lobbying activities, as defined in section 3 of the Lobbying Disclosure Act of 1995 (2 U.S.C. 1602), including any entity that is organized for research or for engaging in advocacy in areas such as public policy or political strategy or otherwise describes itself as a think tank in any public documents;

(3) any business concern or entity:

(i) for which an entity created in or organized under the laws of the People's Republic of China or the Special Administrative Region of Hong Kong, or that has significant operations in the People's Republic of China or the Special Administrative Region of Hong Kong, owns or holds, directly or indirectly, not less than 20 percent of the economic interest of the business concern or entity, including as equity shares or a capital or profit interest in a limited liability company or partnership; or

(ii) that retains, as a member of the board of directors of the business concern, a person who is a resident of the People's Republic of China;

(4) any person required to submit a registration statement under section 2 of the Foreign Agents Registration Act of 1938 (22 U.S.C. 612);

(5) any person or entity that receives a grant for shuttered venue operators under section 324 of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act;

(6) any entity in which the President, the Vice President, the head of an Executive department, or a Member of Congress, or the spouse of such person as determined under applicable common law, directly or indirectly holds a controlling interest in the entity, where:

(i) “controlling interest” means owning, controlling, or holding not less than 20 percent, by vote or value, of the outstanding amount of any class of equity interest in an entity;

(ii) “equity interest” means:

(A) a share in an entity, without regard to whether the share is transferable or classified as stock or anything similar;

(B) a capital or profit interest in a limited liability company or partnership; or

(C) a warrant or right, other than a right to convert, to purchase, sell, or subscribe to a share or interest described in (A) or (B), respectively;

(iii) “Executive department” has the meaning given the term in section 101 of title 5, United States Code;

(iv) “Member of Congress” means a Member of the Senate or House of Representatives, a Delegate to the House of Representatives, and the Resident Commissioner from Puerto Rico; and

(v) For the purpose of determining whether a person has a controlling interest in the entity, the securities owned, controlled, or held by the President, the Vice President, the head of an Executive department, or a Member of Congress, shall be aggregated with the securities held by his or her spouse as determined under applicable common law;

(7) any issuer, the securities of which are listed on an exchange registered as a national securities exchange under section 6 of the Securities Exchange Act of 1934 (15 U.S.C. 78f), where the terms “exchange,” “issuer,” and “security” have the meanings given those terms in section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)) (except SBA will not consider whether a news organization that is eligible under subsection (c)(4) is affiliated with an entity, which includes any entity that owns or controls such news organization, that is an issuer);

(8) an entity that has previously received a Second Draw PPP Loan; or

(9) an entity that has permanently closed.

**(f) What is the maximum loan amount for a Second Draw PPP Loan?**

(1) In general, the maximum loan amount for a Second Draw PPP Loan is equal to the lesser of two and half months of the borrower’s average monthly payroll costs or \$2 million, except as otherwise specified in this subsection (e).

A borrower’s average monthly payroll costs may be based on calendar year 2020, calendar year 2019,<sup>7</sup> or as otherwise specified in subsections (f)(2) through (f)(9) of this section.

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<sup>7</sup> Second Draw PPP Loan borrowers who are not self-employed, sole proprietorships, or independent contractors are also permitted to use the precise 1-year period before the date on which the loan is made to calculate payroll

“Payroll costs” has the same meaning as in subsections (B)(4)(g) and (B)(4)(h) of the Consolidated First Draw PPP Interim Final Rule and is calculated in the same manner. In calculating a borrower’s payroll costs, the borrower must subtract any compensation paid to an employee in excess of \$100,000 on an annualized basis, as prorated for the time period during which the payments are made or the obligation to make the payments is incurred.

(2) Except as otherwise provided in subsection (f)(3) through (f)(7), the maximum amount of a Second Draw PPP Loan is calculated as the lesser of

(i) the product obtained by multiplying:

(A) the average total monthly payment for payroll costs incurred or paid by the borrower during 2019 or 2020 (at the election of the borrower); by

(B) 2.5; or

(ii) \$2,000,000.

**I am self-employed and have no employees. How do I calculate my maximum Second Draw PPP Loan amount? (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.)**

This guidance 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.<sup>8</sup> Documentation, including IRS forms, must be supplied for the selected reference period. If a borrower is using the same lender and same payroll timeframe as it used for its First Draw PPP Loan and already submitted the required payroll documentation to the lender, no additional payroll documentation is required to be submitted with its Second Draw PPP Loan application.

The following methodology should be used to calculate the maximum amount that can be borrowed if you are self-employed and have no employees, and your principal place of residence is in the United States, including if you are an independent contractor or operate a sole proprietorship (but not if you are a partner in a partnership):

- **Step 1:** Find your 2019 IRS Form 1040 Schedule C line 31 net profit amount.<sup>9</sup> If this amount is over \$100,000, reduce it to \$100,000. If this amount is zero or less, you are not eligible for a PPP loan.
- **Step 2:** Calculate the average monthly net profit amount (divide the amount from Step 1 by 12).

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costs if they choose not to use 2019 or 2020. Since most borrowers will use 2019 or 2020 the rule text refers only to 2019 or 2020 for simplicity and readability.

<sup>8</sup> All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

<sup>9</sup> If you are using 2020 amounts and you have not yet completed a 2020 return, fill it out and compute the value.

- **Step 3:** Multiply the average monthly net profit amount from Step 2 by 2.5.<sup>10</sup>

Your 2019 IRS Form 1040 Schedule C must be provided to substantiate the applied-for Second Draw PPP Loan amount. You must also provide a 2019 IRS Form 1099-MISC detailing nonemployee compensation received (box 7), IRS Form 1099-K, invoice, bank statement, or book of record establishing you were self-employed in 2019 and a 2020 invoice, bank statement, or book of record establishing you were in operation on February 15, 2020.

**I am self-employed and have employees. How do I calculate my maximum Second Draw PPP Loan amount (up to \$2 million)? (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.)**

This guidance 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.<sup>11</sup> Documentation, including IRS forms, must be supplied for the selected reference period. If a borrower is using the same lender and same payroll timeframe as it used for its First Draw PPP Loan and already submitted the required payroll documentation to the lender, no additional payroll documentation is required to be submitted with its Second Draw PPP Loan application.

The following methodology should be used to calculate the maximum amount that can be borrowed if you are self-employed with employees, including if you are an independent contractor or operate a sole proprietorship (but not if you are a partner in a partnership):

- **Step 1:** Compute your 2019 payroll costs by adding the following:
  - 2019 IRS Form 1040 Schedule C line 31 net profit amount;<sup>12</sup>
    - if this amount is over \$100,000, reduce it to \$100,000;
    - if this amount is less than zero, set this amount at zero;
  - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, 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;
  - 2019 employer contributions for employee group health, life, disability, vision, and dental insurance (the portion of IRS Form 1040 Schedule C line 14 attributable to those contributions);

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<sup>10</sup> Multiply by 3.5 if your business is in the Accommodation and Food Services sector (NAICS Code 72) and the business activity code reported on your most recent IRS Form 1040 Schedule C line B begins with 72.

<sup>11</sup> All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

<sup>12</sup> If you are using 2020 payroll costs and have not yet completed a 2020 return, fill it out and compute the value.

- 2019 employer contributions to employee retirement plans (IRS Form 1040 Schedule C line 19); and
- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs amount (divide the amount from Step 1 by 12).
- **Step 3:** Multiply the average monthly payroll costs amount from Step 2 by 2.5.<sup>13</sup>

Your 2019 IRS Form 1040 Schedule C, 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 documentation of any retirement or group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP Loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

(3) The maximum amount of a Second Draw PPP Loan to a borrower that is a seasonal employer (meaning an employer that does not operate for more than 7 months in any calendar year or that during the preceding calendar year, had gross receipts for any 6 months of that year that were not more than 33.33 percent of the gross receipts of the employer for the other 6 months of that year) is calculated as the lesser of:

(i) the product obtained by multiplying:

(A) at the election of the borrower, the average total monthly payments for payroll costs incurred or paid by the borrower for any 12-week period between February 15, 2019 and February 15, 2020; by

(B) 2.5 (or, only for a borrower assigned a NAICS code beginning with 72 at the time of disbursement as defined in subsection (f)(10), 3.5); or

(ii) \$2,000,000.

**How is the maximum Second Draw PPP Loan amount calculated for S corporations and C corporations (up to \$2 million)? (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.)**

This guidance 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.<sup>14</sup> Documentation, including IRS forms, must be supplied for the selected reference period. If a borrower is using the same lender and same payroll timeframe as it used for its First Draw PPP Loan

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<sup>13</sup> Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 1040 Schedule C line B begins with 72.

<sup>14</sup> All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

and already submitted the required payroll documentation to the lender, no additional payroll documentation is required to be submitted with its Second Draw PPP Loan application.

The following methodology should be used to calculate the maximum amount that can be borrowed for corporations, including S and C corporations:

- **Step 1:** Compute 2019 payroll costs by adding the following:
  - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
    - 2019 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,
    - 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;
  - 2019 employer group health, life, disability, vision, and dental insurance contributions (portion of IRS Form 1120 line 24 or IRS Form 1120-S line 18 attributable to those contributions);<sup>15</sup>
  - 2019 employer retirement contributions (IRS Form 1120 line 23 or IRS Form 1120-S line 17); and
  - 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **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.<sup>16</sup>

The corporation's 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 the filed business tax return (IRS Form 1120 or IRS 1120-S) or other documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP Loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

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<sup>15</sup> Note that employer contributions for group health, life, disability, vision, and dental insurance for S-Corporation employees who own more than a 2 percent stake in the business (or employees who are family members of such owners) are not included in this figure as such contributions are already included in gross wages.

<sup>16</sup> Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 1120 Schedule K, line 2A (IRS Form 1120-S item B) begins with 72.

**How is the maximum Second Draw PPP Loan amount calculated for eligible nonprofit organizations (up to \$2 million)? (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.)**

This guidance 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.<sup>17</sup> Documentation, including IRS forms, must be supplied for the selected reference period. If a borrower is using the same lender and same payroll timeframe as it used for its First Draw PPP Loan and already submitted the required payroll documentation to the lender, no additional payroll documentation is required to be submitted with its Second Draw PPP Loan application.

The following methodology should be used to calculate the maximum amount that can be borrowed for eligible nonprofit organizations (eligible nonprofit religious institutions or other eligible nonprofits without an IRS Form 990 filing requirement, see the next question):

- **Step 1:** Compute 2019 payroll costs by adding the following:
  - 2019 gross wages and tips paid to your employees whose principal place of residence is in the United States, 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;
  - 2019 employer group health, life, disability, vision, and dental insurance contributions (portion of IRS Form 990 Part IX line 9 attributable to those contributions);
  - 2019 employer retirement contributions (IRS Form 990 Part IX line 8); and o 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **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.<sup>18</sup>

The nonprofit organization's 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 the filed IRS Form 990 Part IX or other documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP Loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you

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<sup>17</sup> All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

<sup>18</sup> Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 1120 Schedule K, line 2A (IRS Form 1120-S item B) begins with 72.

were in operation and had employees on that date. Eligible nonprofits that file IRS Form 990-EZ should rely on that form and those that do not file an IRS Form 990 or 990-EZ, typically those with gross receipts less than \$50,000, should see the next question.

**How is the maximum Second Draw PPP Loan amount calculated for eligible nonprofit religious institutions, veterans organizations, and tribal businesses (up to \$2 million)? (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.)**

This guidance 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.<sup>19</sup> Documentation, including IRS forms, must be supplied for the selected reference period. If a borrower is using the same lender and same payroll timeframe as it used for its First Draw PPP Loan and already submitted the required payroll documentation to the lender, no additional payroll documentation is required to be submitted with its Second Draw PPP Loan application.

The following methodology should be used to calculate the maximum amount that can be borrowed for eligible nonprofit religious institutions, veterans organizations and tribal businesses:

- **Step 1:** Compute 2019 payroll costs by adding the following:
  - 2019 gross wages and tips paid to employees whose principal place of residence is in the United States, up to \$100,000 per employee, which can be computed using:
    - 2019 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,
    - 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 U.S.;
  - 2019 employer group health, life, disability, vision, and dental insurance contributions;
  - 2019 employer retirement contributions and ○ 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **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.<sup>20</sup>

The entity's 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

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<sup>19</sup> All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

<sup>20</sup> Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 1120 Schedule K, line 2A (IRS Form 1120-S item B) begins with 72.

documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

**I am an LLC owner. Which set of instructions applies to me?**

LLCs should follow the instructions that apply to their tax filing status in the reference period used to calculate payroll costs (2019 or 2020)—i.e., whether the LLC filed (or will file) as a sole proprietor, a partnership, or a corporation in the reference period.

*For information regarding partnerships, see information later in this FAQ document.*

(4) The maximum amount of a Second Draw PPP Loan to a borrower that did not exist during the 1-year period preceding February 15, 2020, but was in operation on February 15, 2020 (“new entity”), is calculated as the lesser of:

(i) the product obtained by multiplying:

(A) the quotient obtained by dividing:

(1) the sum of the total monthly payments by the borrower for payroll costs paid or incurred by the borrower as of the date on which the borrower applies for the Second Draw PPP Loan; by

(2) the number of months in which those payroll costs were paid or incurred; by

(B) 2.5 (or, only for a borrower assigned a NAICS code beginning with 72 at the time of disbursement as defined in subsection (f)(10), 3.5); or

(ii) \$2,000,000.

**How is the maximum Second Draw PPP Loan amount calculated for a corporation or nonprofit not in operation for the full one-year period preceding February 15, 2020? (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.)**

The following methodology should be used to calculate the maximum amount that can be borrowed:

- **Step 1:** Compute total payroll costs from when first in operation in 2019 or 2020 through the end of calendar year 2020 by adding the following:
  - Gross wages and tips paid to your employees whose principal place of residence is in the United States, up to \$100,000 per employee annualized, which can be computed using:
    - IRS Form 941 Taxable Medicare wages & tips (line 5c-column 1) from each quarter the business was in operation,
    - 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 the product of \$8,333 and the number of months in operation through 2020, and (ii) 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;<sup>21</sup>
  - Employer retirement contributions; and
  - Employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms).
- **Step 2:** Calculate the average monthly payroll costs (divide the amount from Step 1 by number of months in operation from 2019 through the end of 2020).
  - **Step 3:** Multiply the average monthly payroll costs from Step 2 by 2.5.<sup>22</sup>

The entity's IRS Form 941s and state quarterly wage unemployment insurance tax reporting form from each quarter the entity was in operation (or equivalent payroll processor records or IRS Wage and Tax Statements), along with documentation of any retirement and group health, life, disability, vision, and dental insurance contributions, must be provided to substantiate the applied-for Second Draw PPP Loan amount. A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

**I am self-employed (or a partnership) and was in operation on February 15, 2020, but was not in operation for the full one-year period preceding February 15, 2020. I have filed or will file a Form 1040 Schedule C or Schedule F (or Form 1065) for 2020. What reference period should I be using to compute my Second Draw PPP Loan amount?**

In this case, your maximum Second Draw PPP Loan amount is the average monthly payroll based on the number of months in which you were in operation from 2019 through the end of calendar year 2020, excluding costs over \$100,000 on an annualized basis.

- **Step 1:** Compute total applicable owner compensation across 2019 (if in operation that year) and 2020 income tax returns:<sup>23</sup>
  - For **self-employed Schedule C filers**, it is the sum of the value of Form 1040 Schedule C line 31 net profit.
    - If this amount is less than zero, set this amount to zero;
  - For **self-employed farmer or rancher with no employees**, it is the sum of the value of Form 1040 Schedule F line 9 gross income.

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<sup>21</sup> Note that employer contributions for group health, life, disability, vision, and dental insurance for S-Corporation employees who own more than a 2 percent stake in the business (or employees who are family members of such owners) are not included in this figure as such contributions are already included in gross wages.

<sup>22</sup> Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent income tax return (Form 1120 Schedule K, line 2A for corporations, Form 1120-S item B for S-corporations, and Form 990 Part VIII, adjacent to line 2A for nonprofits) begins with 72.

<sup>23</sup> If you have not completed your applicable 2020 return, fill it out.

- For **self-employed farmer or rancher with employees**, it is the 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.
  - If this amount is less than zero, set this amount to zero.
- For **partnerships**, it is the sum of 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.
  - 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 less than zero, set this amount to zero.
- **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 from the [FAQ immediately above Step 1](#), otherwise enter 0.
- **Step 4:** Calculate the average monthly payroll costs (add Step 2 and Step 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.<sup>24</sup>

Your applicable income tax return (Form 1040 Schedule C, Form 1040 Schedule F, or Form 1065 (including K-1s)) from 2019 (if applicable) and 2020 must be provided to substantiate the applied-for Second Draw PPP loan amount. If you had employees, your IRS Form 941s and state quarterly wage unemployment insurance tax reporting form from each quarter the entity was in operation (or equivalent payroll processor records or IRS Wage and Tax Statements), along with documentation of any retirement and group health, life, disability, vision, and dental insurance contributions must be provided to substantiate the applied-for Second Draw PPP Loan amount. Additionally, a payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date. If you did not have employees, an invoice, bank statement, or book of record establishing you was in operation on February 15, 2020 must instead be provided.

(5) The maximum amount of a Second Draw PPP Loan made to a borrower assigned a NAICS code beginning with 72 at the time of disbursement as defined in subsection (f)(10) (that is not a seasonal employer or new entity addressed in subsection (f)(3) or (f)(4) or a borrower with self-employment income or a partnership addressed in subsection (f)(7) or (f)(8) of this section) is calculated as the lesser of:

- (i) the product obtained by multiplying:

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<sup>24</sup> Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on the most recent income tax return (IRS Form 1040 Schedule C line B for self-employed who are not farmers or ranchers and Form 1120-S item B for partnerships) begins with 72.

(A) the average total monthly payment for payroll costs incurred or paid by the borrower during either 2019 or 2020 (at the borrower's election) by

(B) 3.5; or

(ii) \$2,000,000.

(6) (i) The maximum amount of a Second Draw PPP Loan to a farmer or rancher that: (A) operates as a sole proprietorship or as an independent contractor, or is an eligible self-employed individual; (B) reports farm income or expenses on a Schedule F (IRS Form 1040); and (C) was in business as of February 15, 2020; is calculated according to (ii) or (iii) of this subsection(e)(6), depending on whether the borrower has employees.

(ii) If a borrower meeting the criteria in subsection (6)(i) of this section does not have any employees, the maximum loan amount is the product obtained by multiplying:

(A) the gross income of the borrower in 2019 or 2020, as reported on a Schedule F (IRS Form 1040), that is not more than \$100,000, divided by 12; and

(C) 2.5.

(iii) If a borrower meeting the criteria in subsection (6)(i) of this section has employees, the maximum loan amount is calculated as the lesser of:

(A) the product obtained by multiplying:

(1) the sum of (i) the difference between gross income and employee payroll costs of the borrower in 2019 or 2020 (at the election of the borrower), as reported on a Schedule F (IRS Form 1040), that is not more than \$100,000, divided by 12, and (ii) the average total monthly payment for employee payroll costs incurred or paid by the borrower during the same year elected by the borrower; by

(2) 2.5; or

(C) \$2,000,000.

**I am a self-employed farmer or rancher who reports my income on IRS Form 1040 Schedule F. What documentation must I provide in place of Schedule C and how should my maximum Second Draw PPP Loan amount be calculated (up to \$2 million)?**

This guidance 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.<sup>25</sup> Documentation, including IRS forms, must be supplied for the selected reference period. If

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<sup>25</sup> All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

a borrower is using the same lender and same payroll timeframe as it used for its First Draw PPP Loan and already submitted the required payroll documentation to the lender, no additional payroll documentation is required to be submitted with its Second Draw PPP Loan application.

Self-employed farmers and ranchers (i.e., those who file IRS Form 1040 Schedule F and then report Schedule F income on IRS Form 1040 Schedule 1) should use IRS Form 1040 Schedule F in lieu of Schedule C.

The calculation for self-employed farmers and ranchers without employees is the same as for Schedule C filers that have no employees, except that Schedule F line 9 (gross income) should be used to determine the loan amount rather than Schedule C line 31 (net profit).

The calculation for self-employed farmers and ranchers with employees is the same as for Schedule C filers that have employees with several exceptions. First, in place of Schedule C line 31 (net profit), the difference between Schedule F line 9 (gross income) and the sum of Schedule F lines 15, 22, and 23 (for employee payroll) should be used. Second, employer contributions for employee group health, life, disability, vision, and dental insurance (portion of Schedule F line 15 attributable to those contributions) and employer contributions for employee retirement contributions (Schedule F line 23) should be used in place of those respective lines on Schedule C.

The documentation requirements are the same as for Schedule C filers except the 2019 IRS Form 1040 Schedule 1 and Schedule F must be included with the Second Draw PPP Loan application in place of IRS Form 1040 Schedule C. Additionally, for farmers and ranchers with employees, IRS Form 943 should be provided in addition to, or in place of, IRS Form 941, as applicable.

(7) The maximum amount of a Second Draw PPP Loan to a borrower that has income from self-employment and files a Form 1040, Schedule C, is calculated as follows, depending on whether the borrower has employees:

(i) For a borrower that has income from self-employment and does not have any employees, the maximum loan amount is the lesser of:

(A) the product obtained by multiplying:

(1) the net profit of the borrower in 2019 or 2020, as reported on IRS Form 1040 Schedule C, that is not more than \$100,000, divided by 12; and

(2) 2.5 (or, only for a borrower assigned a NAICS code beginning with 72 as defined in subsection (f)(10) at the time of disbursement, 3.5).

(ii) For a borrower that has income from self-employment and has employees, the maximum loan amount is the lesser of:

(A) the product obtained by multiplying:

(1) the sum of (i) the net profit of the borrower in 2019 or 2020 (at the election of the borrower), as reported on IRS Form 1040 Schedule C, that is not more than \$100,000, divided by 12; (ii) the average total monthly payment for

employee payroll costs incurred or paid by the borrower during the same year elected by the borrower; by

(2) 2.5 (or, only for a borrower assigned a NAICS code beginning with 72 at the time of disbursement as defined in subsection (f)(10), 3.5); or

(B) \$2,000,000.

(8) The maximum amount of a Second Draw PPP Loan to a borrower that files taxes as a partnership is calculated as the lesser of:

(i) the product obtained by multiplying:

(A) the sum of (1) net earnings from self-employment of individual general partners in 2019 or 2020 (at the election of the borrower), as reported on IRS Form 1065 K-1, reduced by section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties, multiplied by 0.923537<sup>26</sup>, that is not more than \$100,000, divided by 12; (2) the average total monthly payment for employee payroll costs incurred or paid by the borrower during the same year elected by the borrower; by

(B) 2.5 (or, only for a borrower assigned a NAICS code beginning with 72 as defined in subsection (f)(10) at the time of disbursal, 3.5); or

(ii) \$2,000,000.

**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.)**

This guidance 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.<sup>27</sup> Documentation, including IRS forms, must be supplied for the selected reference period. If a borrower is using the same lender and same payroll timeframe as it used for its First Draw PPP Loan and already submitted the required payroll documentation to the lender, no additional payroll documentation is required to be submitted with its Second Draw PPP Loan application.

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):

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<sup>26</sup> This treatment follows the computation of self-employment tax from IRS Form 1040 Schedule SE Section A line 4 and removes the "employer" share of self-employment tax, consistent with how payroll costs for employees in the partnership are determined.

<sup>27</sup> All components of payroll costs must be from the same calendar year. Payroll costs, including for covered benefits, can only be included for employees whose principal place of residence is in the United States.

- **Step 1:** Compute 2019 payroll costs by adding the following:
  - 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,<sup>28</sup> up to \$100,000 per partner;<sup>29</sup>
    - 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;
  - 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;
  - 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);
  - 2019 employer contributions to employee (but not partner) retirement plans, if any (IRS Form 1065 line 18); and
  - 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.<sup>30</sup>

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

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<sup>28</sup> This treatment follows the computation of self-employment tax from IRS Form 1040 Schedule SE Section A line 4 and removes the "employer" share of self-employment tax, consistent with how payroll costs for employees in the partnership are determined.

<sup>29</sup> If the partnership is using 2020 payroll costs and the Form 1065 for 2020 has not yet been completed, fill out the form.

<sup>30</sup> Multiply by 3.5 if your business is in the Accommodation and Food Services sector and the business activity code reported on your most recent IRS Form 1065 Line C begins with 72.

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.

(9) Businesses that are part of a single corporate group shall in no event receive more than \$4,000,000 of Second Draw PPP Loans in the aggregate. Corporate group has the same meaning as in subsection (B)(4)(f) of the Consolidated First Draw PPP Interim Final Rule.

**Is there a limit on the dollar amount of Second Draw PPP Loans a corporate group can receive?**

Yes, businesses that are part of the same corporate group cannot receive Second Draw PPP Loans in a total amount of more than \$4 million. For purposes of this limit, businesses are part of a single corporate group if they are majority owned, directly or indirectly, by a common parent.

(10) For purposes of calculating a borrower's maximum payroll costs, a borrower may multiply its average monthly payroll costs by 3.5 only if the borrower is in the Accommodation and Food Services sector and has reported a NAICS code beginning with 72 as its business activity code on its most recent IRS income tax return.

**(g) How do I submit an application for a Second Draw PPP Loan and what documentation must I provide to demonstrate eligibility?**

(1) The applicant must submit to the lender SBA Form 2483-SD (Paycheck Protection Program Second Draw Borrower Application Form) or the lender's equivalent form including the required certifications and the documentation in subsection (g)(2).

(2) At the time an applicant submits its loan application form, it must submit the following unless the documentation was submitted to the lender for the First Draw PPP Loan (i.e., the applicant used calendar year 2019 figures to determine both its First Draw PPP Loan amount and its Second Draw PPP Loan amount, and the lender for the applicant's Second Draw PPP Loan is the same as the lender that made the applicant's First Draw PPP Loan):

(i) If the applicant is not self-employed, the applicant's Form 941 (or other tax forms containing similar information) and state quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or 2020 (whichever was used to calculate payroll), as applicable, or equivalent payroll processor records, along with evidence of any retirement and employee group health, life, disability, vision, and dental insurance contributions, must be provided. A partnership must also include its IRS Form 1065 K-1s.

(ii) If the applicant is self-employed and has employees, the applicant's 2019 or 2020 (whichever was used to calculate loan amount) IRS Form 1040 Schedule C, Form 941 (or other tax forms or equivalent payroll processor records containing similar information) and state quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or 2020 (whichever was used to calculate loan amount), as applicable, or equivalent payroll processor records, along with evidence of any retirement and employee group health, life, disability, vision and dental insurance contributions, if applicable, must be provided. A payroll statement or similar

documentation from the pay period that covered February 15, 2020 must be provided to establish the applicant was in operation on February 15, 2020.

(iii) If the applicant is self-employed and does not have employees, the applicant must provide (a) its 2019 or 2020 (whichever was used to calculate loan amount) Form 1040 Schedule C, (b) a 2019 or 2020 (whichever was used to calculate loan amount) IRS Form 1099-MISC detailing nonemployee compensation received (box 7), invoice, bank statement, or book of record that establishes that the applicant is self-employed; and (c) a 2020 invoice, bank statement, or book of record to establish that the applicant was in operation on or around February 15, 2020.

(iv) For loans with a principal amount greater than \$150,000, documentation sufficient to establish that the applicant experienced a reduction in revenue, as provided in subsection(c)(1)(iv), must be provided at the time of application, which may include relevant tax forms, including annual tax forms, or, if relevant tax forms are not available, a copy of the applicant's quarterly income statements or bank statements.

(v) For loans with a principal amount of \$150,000 or less, the applicant must submit documentation sufficient to establish that the applicant experienced a reduction in revenue as provided in subsection (c)(1)(i) of this section at the time of application, on or before the date the borrower submits an application for loan forgiveness, or, if the borrower does not apply for loan forgiveness, at SBA's request. Such documentation may include relevant tax forms, including annual tax forms, or, if relevant tax forms are not available, a copy of the applicant's quarterly income statements or bank statements.

**What other documentation can an applicant provide for the purpose of substantiating payroll costs used to calculate the applied-for Second Draw PPP Loan amount?**

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.

**If I used payroll costs from the prior 12 months when computing my First Draw PPP Loan amount, can I continue to use those figures to compute my Second Draw PPP Loan amount?**

No, payroll costs from the precise 12-month period prior to the First Draw PPP Loan cannot be used to compute the Second Draw PPP Loan amount. Any borrower that used payroll costs from the prior 12 months when computing its First Draw PPP Loan amount can calculate the amount for its Second Draw PPP Loan amount using calendar year 2019 or calendar year 2020 payroll costs.<sup>31</sup> A borrower that used calendar year 2019 for its First Draw PPP Loan amount may continue to do so.

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<sup>31</sup> Borrowers who are not self-employed (including sole proprietorships and independent contractors) are also permitted to use the precise 1-year period before the date on which the Second Draw Loan is made to calculate payroll costs if they choose not to use 2019 or 2020.

**Can I enter NAICS code 72 on my Second Draw PPP Loan application if the business activity code line was left blank on my business's most recently filed income tax return?**

If an entry for this line is missing from your tax return, you should report the industry code that is most applicable to your business' primary business activity. If your business is in the Accommodation and Food Services sector (e.g., a hotel, restaurant, bar), you can only report a NAICS Code beginning with 72 if you can substantiate this with alternative documentation, such as permits or licenses issued by local governments that are unique to this sector.

**In addition to pre-tax employee contributions for health insurance, what are the other pre-tax employee contributions for fringe benefits that may have been excluded from IRS Form 941 Taxable Medicare wages & tips that is part of employee gross pay?**

Employee contributions and deductions from pay for flexible spending arrangements (FSA) or other nontaxable benefits under a section 125 cafeteria plan, qualified transit or parking benefits (up to \$270 a month), and group life insurance (for up to \$50,000 of coverage) may have been excluded from IRS Form 941 Taxable Medicare wages & tips. However, pre-tax employee contributions to retirement plans are included in Taxable Medicare wages & tips and should not be added to that figure to arrive at gross pay.

**How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?**

Payroll costs are calculated on a gross basis without regard to federal taxes imposed or withheld, such as the employee's and employer's share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees' pay. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer. However, payroll costs do not include the employer's share of payroll tax. For example, the wages of an employee who earned \$4,000 per month in gross wages, from which \$500 in federal taxes was withheld, count as \$4,000 in payroll costs. However, the employer-side federal payroll taxes imposed on the \$4,000 in wages are excluded from payroll costs under the statute.<sup>32</sup>

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<sup>32</sup> The definition of "payroll costs" in the CARES Act, 15 U.S.C. 636(a)(36)(A)(viii), excludes "taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code of 1986 during the covered period". As described above, the SBA interprets this statutory exclusion to mean that payroll costs are calculated on a gross basis, without subtracting federal taxes that are imposed on the employee or withheld from employee wages. Unlike employer-side payroll taxes, such employee-side taxes are ordinarily expressed as a reduction in employee take home pay; their exclusion from the definition of payroll costs means payroll costs should not be reduced based on taxes imposed on the employee or withheld from employee wages. This interpretation is consistent with the text of the statute and advances the legislative purpose of ensuring workers remain paid and employed. Further, because the reference period for determining a borrower's maximum loan amount will largely or entirely precede the period during which borrowers will be subject to the restrictions on allowable uses of the loans, for purposes of the determination of allowable uses of loans and the amount of loan forgiveness, this statutory exclusion will apply with respect to such taxes imposed or withheld at any time, not only during such period.

(3) On the Second Draw PPP Loan borrower application, an authorized representative of the applicant<sup>33</sup> must make the certifications of the Consolidated First Draw PPP Interim Final Rule, except:

(i) instead of the certification in subsection (B)(12)(v) of the Consolidated First Draw PPP Interim Final Rule, the applicant must certify that the applicant has not and will not receive another Second Draw Paycheck Protection Program Loan; and

(ii) an authorized representative of the applicant must also certify:

(A) The Applicant has realized a reduction in gross receipts in excess of 25% relative to the relevant comparison time period. For loans greater than \$150,000, Applicant has provided documentation to the lender substantiating the decline in gross receipts. For loans of \$150,000 or less, Applicant will provide documentation substantiating the decline in gross receipts upon or before seeking loan forgiveness for the Second Draw Paycheck Protection Program Loan or upon SBA request.

(B) The Applicant received a First Draw Paycheck Protection Program Loan and, before the Second Draw Paycheck Protection Program Loan is disbursed, will have used the full loan amount (including any increase) of the First Draw Paycheck Protection Program Loan only for eligible expenses.

(C) The Applicant is not a business concern or entity (a) for which an entity created in or organized under the laws of the People's Republic of China or the Special Administrative Region of Hong Kong, or that has significant operations in the People's Republic of China or the Special Administrative Region of Hong Kong, owns or holds, directly or indirectly, not less than 20 percent of the economic interest of the business concern or entity, including as equity shares or a capital or profit interest in a limited liability company or partnership; or (b) that retains, as a member of the board of directors of the business concern, a person who is a resident of the People's Republic of China.

(D) The Applicant is not required to submit a registration statement under section 2 of the Foreign Agents Registration Act of 1938 (22 U.S.C. 612).

(E) The Applicant is not a business concern or entity primarily engaged in political or lobbying activities, including any entity that is organized for research or for engaging in advocacy in areas such as public policy or political strategy or otherwise describes itself as a think tank in any public documents.

(4) A lender must submit SBA Form 2484-SD (Paycheck Protection Program Lender's Application – Second Draw Loan Guaranty) electronically in accordance with program requirements and maintain the forms and supporting documentation in its files.

**(h) What do lenders need to know and do?**

(1) A lender approved to make First Draw PPP Loans may make Second Draw PPP Loans under the same terms and conditions applicable to First Draw PPP Loans, including all requirements under sections (C)

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<sup>33</sup> A representative of the applicant can certify for the business as a whole if the representative is legally authorized to do so.

and (D) of the Consolidated First Draw PPP Interim Final Rule, except as otherwise provided in this section.

**(2) What do lenders have to do in terms of loan underwriting?**

(i) Each lender shall:

(A) Confirm receipt of borrower certifications contained in Paycheck Protection Program Second Draw Borrower Application Form (SBA Form 2483-SD) or lender's equivalent;

(B) Confirm receipt of information demonstrating that a borrower was either an eligible self-employed individual, independent contractor, or sole proprietorship with no employees or had employees for whom the borrower paid salaries and payroll taxes on or around February 15, 2020;

(C) Confirm the dollar amount of average monthly payroll costs for 2019 or 2020 (whichever was used to calculate loan amount) by reviewing the payroll documentation submitted with the borrower's application;

(D) For a Second Draw PPP Loan greater than \$150,000 or a loan of \$150,000 or less where the borrower provides documentation of revenue reduction, confirm the dollar amount and percentage of the borrower's revenue reduction by performing a good faith review, in a reasonable time, of the borrower's calculations and supporting documents concerning the borrower's revenue reduction. For a loan of \$150,000 or less where the borrower does not provide documentation of revenue reduction with its application, the lender shall perform this review when the borrower provides such documentation. If the lender identifies errors in the borrower's calculation or material lack of substantiation in the borrower's supporting documents, the lender should work with the borrower to remedy the issue.

(E) Follow applicable BSA requirements (listed in subsection (C)(3)(d) of the Consolidated First Draw PPP Interim Final Rule); and

(ii) Each lender's underwriting obligation under the Second Draw PPP is limited to the items above and reviewing the "Paycheck Protection Program Second Draw Borrower Application Form" (SBA Form 2483-SD) or lender's equivalent form.

(iii) A lender may rely on any certification or documentation submitted by an applicant for a PPP loan or an eligible recipient or eligible entity that

(A) is submitted pursuant to all applicable statutory requirements, regulations, and guidance related to a PPP loan, including under sections 7(a)(36) or (37) of the Small Business Act (15 U.S.C. 636(a)(36) and (37)); and

(B) attests that the applicant, eligible recipient, or eligible entity, as applicable, has accurately provided the certification or documentation to the lender in accordance with the statutory requirements, regulations, and guidance related to PPP loans.

With respect to a lender that relies on such a certification or documentation related to a Second Draw PPP Loan, an enforcement action may not be taken against the lender, and the lender shall not be subject to any penalties relating to loan origination or forgiveness of the Second Draw PPP Loan, if

(A) the lender acts in good faith relating to loan origination or forgiveness of the Second Draw PPP Loan based on that reliance; and

(B) all other relevant Federal, State, local, and other statutory and regulatory requirements applicable to the lender are satisfied with respect to the Second Draw PPP Loan.

**(3) SBA will pay lenders fees for processing Second Draw PPP Loans in the following amounts:**

(i) for a Second Draw PPP Loan of up to (and including) \$50,000, in an amount equal to the lesser of:

(A) 50 percent of the balance of the financing outstanding at the time of disbursement of the loan; or

(B) \$2,500; and

(ii) for a Second Draw PPP Loan of more than \$50,000, in an amount that is:

(A) 5 percent of the balance of the financing outstanding at the time of disbursement of the loan for a loan up to (and including) \$350,000; and

(B) 3 percent of the balance of the financing outstanding at the time of disbursement of the loan for a loan above \$350,000.

**(i) Will an applicant's Second Draw PPP Loan application be affected if there are unresolved issues regarding the applicant's First Draw PPP Loan?**

(1) If a First Draw PPP Loan is under review pursuant to PPP rules and/or information in SBA's possession indicates that the borrower may have been ineligible for the First Draw PPP Loan it received or for the loan amount received by the borrower, the lender will receive notification from SBA when the lender submits an application for guaranty of a Second Draw PPP Loan ("unresolved borrower").

(2) If the lender receives notification that the Applicant for a Second Draw PPP Loan is an unresolved borrower, the lender will not receive an SBA loan number. SBA will resolve the issue related to the unresolved borrower expeditiously and will notify the lender of the process to obtain an SBA loan number for the Second Draw PPP Loan, if appropriate.

**(j) Are Second Draw PPP Loans eligible for loan forgiveness?**

Second Draw PPP Loans are eligible for loan forgiveness on the same terms and conditions as First Draw PPP Loans, except that Second Draw PPP Loan borrowers with a principal amount of \$150,000 or less are required to provide documentation of revenue reduction if such documentation was not provided at the time of the loan application as specified in subsections (g)(2)(iv) and (v) of this section as outlined above.



**Additional Information**

SBA may provide further guidance, if needed, through SBA notices and a program guide which will be posted on SBA's website at [www.sba.gov](http://www.sba.gov).

Questions on the Paycheck Protection Program 7(a) Loans (First Draw PPP Loans and Second Draw PPP Loans) may be directed to the Lender Relations Specialist in the local SBA Field Office. The local SBA Field Office may be found at <https://www.sba.gov/tools/localassistance/districtoffices>