

# SBA Paycheck Protection Program

## Gross Receipts User Guide



### Gross Receipts Overview:

The following provides a quick overview of gross receipts. Please read the document in its entirety.

#### What do gross receipts have to do with PPP Loans?

- In order to apply for a 2021 PPP Second Draw Loan, borrowers had to demonstrate a decline in revenue of 25% or more. Borrowers used what is defined as gross receipts to document their decline. *See below for more details.*

#### Why does this matter now that I'm applying for forgiveness?

- Borrowers who applied for a Second Draw PPP loan of \$150,000 or less could defer proof of the 25% decline in gross receipts until forgiveness. If you took advantage of the option to defer during the origination process, you may need to provide documentation during the forgiveness process.

#### What do I need to do?

- When you begin the online application process, you will be prompted to provide gross receipt documentation if required.
- There are a few reasons you will **not** be required to provide documentation:
  - You provided gross receipts at the time of your loan
  - You are not required to provide gross receipts based on the new COVID Revenue Reduction Score provided by the SBA
    - *See the COVID Revenue Reduction Score sidebar for more information*
- If either scenario describes your situation, you can disregard the following information.
- If you are prompted to provide gross receipts documentation, please read below to understand what will be required.

#### What if I have questions?

- If you have questions, please reach out to your banker, visit a banking center or contact the PPP Business Service Center at 877-639-3305.

### Gross Receipts Reduction Detail:

The Economic Aid Act provides that, to be eligible for a Second Draw PPP loan, the borrower must have experienced a revenue reduction of 25% or greater in 2020 relative to 2019. A borrower must calculate this revenue reduction by comparing the borrower's **quarterly gross receipts for one quarter in 2020 with the borrower's gross receipts for the corresponding quarter of 2019.**

FOR EXAMPLE: A borrower with gross receipts of \$50,000 in the second quarter of 2019 and gross receipts of \$30,000 in the second quarter of 2020 has experienced a revenue reduction of 40% between the quarters, and is therefore eligible for a Second Draw PPP loan (assuming all other eligibility criteria are met).

### Understanding COVID Revenue Reduction Score:

#### What is the COVID Revenue Reduction Score?

Score that uses current data on economic recovery and return of businesses to operational status that determines whether a borrower is exempt or not exempt from providing proof of reduction in gross receipts.

#### How does my COVID Revenue Reduction Score impact my request for PPP forgiveness?

The SBA has proactively applied your COVID Revenue Reduction Score to your forgiveness application.

If you are not prompted to provide gross receipts documentation in the online application, then your score has exempted you from the requirement.

If you are prompted to provide gross receipts documentation in the online application, then your score has not exempted you from the requirement.

#### Where can I get my score?

COVID Revenue Reduction Scores are controlled by the SBA and are not made public.

#### How is the COVID Revenue Reduction Score calculated?

While the exact formula to calculate your score is controlled by the SBA, we do know it is composed of several factors such as industry, geography and business size.

# SBA Paycheck Protection Program

## Gross Receipts User Guide



A borrower that was in operation in all four quarters of 2019 is deemed to have experienced the required revenue reduction if it experienced a reduction in annual receipts of 25% or greater in 2020 compared to 2019 and the borrower submits copies of its annual tax forms substantiating the revenue decline. This provision will allow a borrower to provide annual tax return forms to substantiate its revenue reduction.

A borrower that did not experience a 25% annual decline in revenues, or that was not in operation in all four quarters of 2019, may still meet the revenue reduction requirement under one of the quarterly measurements described above.

### Gross Receipts Definition:

- All revenue in whatever form received or accrued (in accordance with the entity's accounting method) from whatever source, including from:
  - Sales of products or services;
  - Interest or 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 of 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; and
- Loan proceeds from your First Draw PPP loan.

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.

### Documentation:

- Option 1: 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.
- Option 2: 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).
- Option 3: 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, and sign and date the return, attesting that the values they enter into the gross receipts computation are the same values that will be filed on the entity's tax return.
  - For self-employed individuals other than farmers and ranchers (IRS Form 1040 Schedule C): sum of line 4 and line 7

# SBA Paycheck Protection Program

## Gross Receipts User Guide



- For self-employed farmers and ranchers (IRS Form 1040 Schedule F): sum of lines 1b and 9
- 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

### For Applicants not in business during all of 2019:

- **For Applicants not in business during the first and second quarters of 2019** but in operation during the third and fourth quarters of 2019, documentation must demonstrate that gross receipts in any quarter of 2020 were at least 25% lower than either the third or fourth quarters of 2019.
- **For Applicants not in business during the first, second and third quarters of 2019** but in operation during the fourth quarter of 2019, documentation must demonstrate that gross receipts in any quarter of 2020 were at least 25% lower than the fourth quarter of 2019.
- **For Applicants not in business during 2019 but in operation on February 15, 2020**, documentation must demonstrate that gross receipts in the second, third or fourth quarter of 2020 were at least 25% lower than the first quarter of 2020.