

When applying for a Paycheck Protection Program (PPP) loan, you'll be asked to provide your average monthly payroll costs. The basic steps around this calculation are generally consistent, but there are some differences depending on your business type.

In this document, we'll walk you through an example calculation to help you better understand the key components.

Review the SBA's [How to Calculate First Draw PPP Loan Amounts](#) (First PPP Loan) or [Second Draw PPP Loans: How to Calculate Revenue Reduction and Maximum Loan Amounts Including What Documentation to Provide](#) (Second PPP Loan) for the detailed requirements that apply to your business, including requirements for new businesses, seasonal businesses and farmers/ranchers.

STEP 1: CALCULATE PAYROLL COSTS

The first thing you'll need to do is to calculate your annual salary costs. You will need to cap individual annual salaries at \$100,000/employee. And you can only include compensation for employees whose principal place of residence is in the U.S. You cannot include independent contractors as your employees for purposes of this calculation.

Total salary may include:

- Annual gross salary, wages, commissions or similar compensation
- Cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips)
- Payment for vacation, parental, family, medical, or sickleave; allowance for separation or dismissal
- Payment of state and local taxes assessed on compensation of employees
- Payment for the provision of employee benefits consisting of group health care or group life, disability, vision, or dental insurance, including insurance premiums and retirement
- For an independent contractor or sole proprietor, wages, commissions, income, or net earnings from self-employment, or similar compensation

REQUIRED DOCUMENTATION

You must provide all documents used to calculate your average monthly payroll. To learn more about the documents you will need to apply, please review our checklists:

- [Corporation](#)
- [IRS Tax Form 1040 Schedule C filer](#)
- [Partnership](#)
- [Nonprofit](#)
- [Schedule F](#)

Our checklists include special instructions for seasonal and new businesses.

Employee Whose principal place of residence is in the U.S.	Annual salary Annual gross salary, wages, commissions, tips	Total eligible salary If greater than \$100,000, enter \$100,000
Angela	\$120,000	\$100,000
Betty	\$5,000	\$5,000
Carlos	\$40,000	\$40,000
TOTAL ELIGIBLE SALARY		\$145,000

NOTE: If the annual salary for an employee is greater than \$100,000, enter \$100,000.

NOTE: Do *not* include rent, mortgage interest or utility payments.

Visit [SBA.gov](https://www.sba.gov) or [treasury.gov](https://www.treasury.gov) for full program details.

IMPORTANT NOTE: For informational purposes only: Interpretations and strategies described may not be appropriate for every applicant, and do not take the place of legal, tax or accounting advice for your situation. You should carefully consider your needs and objectives before making any decisions, and consult the appropriate professional(s). This information is subject to change based on changes to applicable rules, laws and regulatory guidance.

PPP is an SBA program that JPMorgan Chase facilitates as an SBA lender. All loans are subject to other requirements and availability of funds under the SBA program.

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STEP 2: CALCULATE TOTAL BENEFITS COMPENSATION

Next, you'll need to sum up the components of benefits compensation, if you have employees. For self-employed individuals, including Schedule C or F filers and general partners; retirement and health insurance contributions are included in your self-employment income.

Total benefits compensation	Amount
Payments to employees for vacation, parental, family, medical or sick leave	\$500
Allowance for separation or dismissal	\$11,300
Employee benefits: group health coverage, insurance premiums	\$700
Retirement benefits	\$300
TOTAL BENEFITS COMPENSATION	\$12,800

STEP 3: EXCLUSIONS

Next identify any excluded costs as defined by the SBA.

Total required exclusions	Amount
Federal employment taxes, including employee and employer share of FICA and RR Retirement taxes imposed or withheld during the applicable period	\$500
Income taxes required to be withheld from employees	\$1,000
Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act	\$300
TOTAL EXCLUSIONS	\$1,800

STEP 4: CALCULATE TOTAL ANNUAL PAYROLL

Calculate your total annual payroll costs by adding total eligible salary and benefits compensation and subtracting out total required exclusions.

Total eligible salary		Total benefits compensation		Total exclusions		Total annual payroll
\$145,000	+	\$12,800	-	\$1,800	=	\$156,000

STEP 5: CALCULATE AVERAGE MONTHLY PAYROLL

The final step is to calculate your average monthly payroll. In this example, since we are using a full year of payroll, we divide by 12 months. For seasonal and new businesses, please refer to the additional instructions in our checklists.

Total annual payroll		12 (months)		Average monthly payroll
\$156,000	÷	12	=	\$13,000

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