

## Paycheck Protection Second Draw Loans (PPP2)

### Acceptable Revenue Reduction Proof Documents

As part of the PPP2 forgiveness process, borrowers with a loan up to \$150,000 are required to provide supporting documentation for revenue reduction. Loans above \$150,000 were required to provide this information at loan application. The following is information regarding what documentation is acceptable to SBA. Borrowers may also refer to the guidance released by SBA on March 12, 2021 for information regarding revenue reduction.

#### Acceptable Forms of Documentation:

- 1) **Borrower quarterly financial statements** – borrowers can provide the quarterly income statement for the comparable reference quarters (example: Q2 2020 and Q2 2019) to show their 25% revenue reduction. The first page must be signed and dated and all subsequent pages initialed unless they are CPA audited financials. Also, the borrower must annotate which line items constitute gross receipts if not easily identifiable.
- 2) **Borrower quarterly or monthly bank statements** – these would be for the comparable quarters showing deposits. The borrower must also annotate which deposits in the bank statements are gross revenue receipts. A best practice if using this method is to provide a separate sheet listing out the total deposits for the two referenced quarters so they can easily be compared.
- 3) **Annual IRS income tax filings for the borrower** – the 2019 and 2020 tax returns can also be used as a comparable to show a 25% revenue reduction in lieu of quarterly financials. Borrowers will need to complete their 2020 tax return even if not yet filed at the time forgiveness is requested. This will also need to be signed and dated.

#### Using Tax Returns:

The amount required to compute gross receipts and determine the revenue reduction varies by entity tax return type:

- 1) **Self-employed other than farmers and ranchers** – the sum of lines 4 and 7 on the 1040 Schedule C.
- 2) **Self-employed farmers and ranchers** – the sum of lines 1b and 9 of the 1040 Schedule F.
- 3) **Partnerships** – the sum of lines 2 and 8 minus line 6 of the IRS form 1065.
- 4) **S-corporations** – the sum of lines 2 and 6, minus line 4 of the IRS form 1120-S.
- 5) **C-corporations** – the sum of lines 2 and 1, minus the sum of lines 8 and 9.
- 6) **Non-profits using 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.
- 7) **Non-profits using IRS form 990-EZ** – the sum of lines 5b, 6c, 7b and 9 of Part I.
- 8) **LLC** – follow the instructions that apply to their tax filing status in the reference periods.