1. Do Owner Draws Count as Salary for the Paycheck Protection Program? - YouTube

<https://www.youtube.com/watch?v=12yfPLEVKDE>

Transcript:

okay hi everyone its Oscar here from bench accounting and in this video I'm going to answer the question of whether or not owner draws count as part of average monthly payroll costs calculations for the paycheck protection program now to give you a bit of context here at bench accounting we work with roughly 8,000 small businesses to do their bookkeeping and I would say through this whole process with the PPP this has been one of the the most frequently asked questions from our clients is when I'm figuring out how

much I kind of what my payroll costs were for 2019 my main source of income was through sort of informal draws in the business as I was a sort prop or I own an LLC and I just take money out of the business now people want rightly you should be thinking you know can I include that as part of my average monthly payroll cost and the simple answer is no you cannot and I'll go into the reason why now if you if you have a sole proprietorship and you're taking money out of the business it's important to recognize that any of these drawers

you're not paying self-employment taxes on and this is what the SBA will be looking at when they're assessing how much you're eligible to receive under the program is what money are you paying tax on now for a sole proprietorship this is the net profits of the business as its reported on the Schedule C of your personal tax return so this is the line that you should be using so that line 31 on your Schedule C to work out what your payroll costs figure was for 2019 you take that net profit and it's

remember it's gotta be capped at a hundred thousand divide that by 12 to reach the average monthly figure and then multiply by 2.5 to work out what's the maximum amount that you can borrow important to note here is that if you have a sole proprietorship and you've got a couple of employees that you're paying their ww2 employees you're paying them you're paying them a salary you can lump those all in whit along with that net it figure now remember the salary for each of those employees again is capped

at a hundred thousand but it can be all added together to work out how much to borrow and just not those member draws another point on this is that if you are let's say you're one of the managing members of a multi-member LLC and that net profit line you don't use the whole thing but you use whatever the percentage ownership of the business that you have you apply that percentage so the net profit line and then you use that to figure out the average monthly amount that you can that you can use for

your calculations so that is sort of soul props owners of LLC's that sort of thing it's that net profit line that you're using and again not member draws now that sort of whole point of not member draws that also applies if you your businesses or corporation so C Corp or an S Corp let's say you're taking set holder distributions as in the owner of an S Corp again those don't those don't counts nor do loans to shareholders if you own a c-corporation none of those counts now if you are in this sort of

bracket that you own a corporation again what I'm saying here is that it's anything that's being paid through payroll is what that you is what you can apply for my comment about the net profit line as it relates to LLC's or Saab prior ships that is not the same for corporations and to explain why it's again just to do with with how the taxation works here business profits are taxed separately to to to personal taxes like so there's none of this there's none of the passing those business

profits through to the personal tax return so net profit does not count towards calculations for a corporation for a corporation that's just anything that's going through payroll any of those salaries as long as they're going through as long as the essentially you're paying your remitting payroll taxes it doesn't necessarily have to be done through a payroll provider you can be doing it informally or through a CPA as long as you're omitting payroll taxes that's what you can include in those

average monthly payroll costs calculations including yourself you should be paying yourself through payroll if you're not and again go to taking draws unfortunately that doesn't count for the purposes of the PPP so that's a kind of brief description of this subject if you wanted to know a bit more detail into into our thinking behind this and do have a look at our blog so www bench Co Ford slash blog we'll put a link to the article about owner drawers in the description below but that's all for me for now do

subscribe if you want to see more videos on this subject but thanks very much for watching and very good luck with your application