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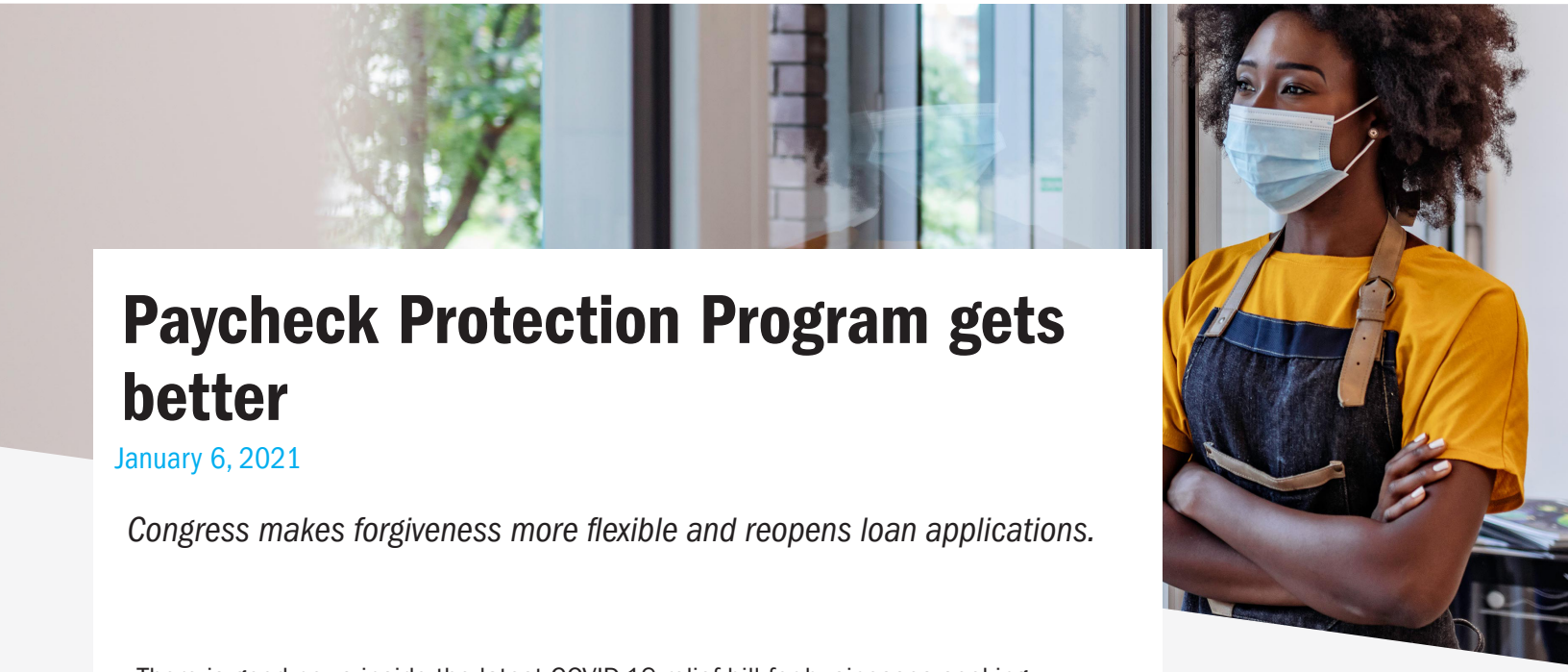

Paycheck Protection Program gets better

January 6, 2021

Congress makes forgiveness more flexible and reopens loan applications.

There is good news inside the latest COVID-19 relief bill for businesses seeking Paycheck Protection Program (PPP) loan forgiveness, including a greater tax benefit, greater flexibility and a renewed ability to apply and even reapply for a "second draw" loan.

When Congress created the Paycheck Protection Program as part of the CARES Act of 2020, the law provided that loan forgiveness would not be taxable, but the IRS took a narrow view in its administrative guidance, which stated that business expenses covered by PPP loans would not be deductible if the loan is forgiven (or reasonably expected to be forgiven in the future). Senators Chuck Grassley (R-IA) and Ron Wyden (D-OR) were vocal that the IRS guidelines were not aligned with congressional intent and vowed legislative clarity.

As part of the Consolidated Appropriations Act of 2021, Congress has spoken: not only is a forgiven PPP loan tax-exempt, a business owner may also deduct all eligible business expenses including all the expenses listed on a PPP loan forgiveness application. The bill also clarifies that certain other loan forgiveness under the CARES Act, including emergency Small Business Administration Economic Injury Disaster Loan (EIDL) grants and loan repayment assistance, would not be taxable, and eligible expenses covered by those loans would remain deductible.

Abram Claude
Vice President, Head of Value-Add and Consultative Services Programs

Additional good news regarding PPP

Congress did not stop there. It also expanded the expenses that can be included in the "Other Qualified Expense" category beyond the original mortgage interest, leases and utilities in the initial PPP legislation. Operational and supplier expenses, investment in personal protection equipment, investments in safer ways of conducting business (such as building a drive-through window) and even repairs from the summer's civil unrest are now eligible expenses.

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By tripling the ceiling for using the simplified loan forgiveness application from $50,000 to $150,000 in loan size, far more businesses will be able to go that route. In addition, small-business owners who have not done so in the past will be able to apply for a loan. A business with a previous loan can apply for a second draw loan if the prior loan is or will be expended. Second draw loans require meeting a revenue test of a 25% decline in gross receipts or more quarter-over-quarter in 2020 compared with 2019 and 300 or fewer employees. Congress has authorized a little over $284 billion for new and second PPP loans and $20 billion in EIDLs for struggling business enterprises.

Paycheck Protection Program: Before and after the Consolidated Appropriations Act of 2021

	Before	After
PPP loan forgiveness	The forgiven loans are tax-free income, but expenses paid with those loans are not deductible. EIDL grants must be subtracted from PPP loan forgiveness amounts.	The forgiven loans are tax-free income **and** all eligible expenses are deductible. EIDL grants do not have to be subtracted from PPP loan forgiveness amounts.
Included in other qualified expenses	Mortgage interest, leases and utility costs.	Expands other qualified expenses to include operational and supplier expenses, the cost of personal protection equipment and repairs from civil unrest.
Payroll expenses	$100,000 in annual compensation pro-rated for the period paid or incurred, plus employer retirement plan and group health insurance contributions.	Expanded to also include employer contributions to group insurance plans (life, disability, vision and dental).
Simplified forgiveness application ceiling	$50,000 loan	$150,000 loan
Loans permitted	One loan with a $10 million limit. Note: The window for loan applications last closed August 8, 2020.	A reopened window for one new or one needs-tested second draw loan with a $2 million loan limit. March 31, 2021 is the application deadline.

Bottom line: Take the time to do it right

With clarity on tax treatment, business owners can take a little more time to assemble their forgiveness applications. They have 10 months from the end of their 8- or 24-week covered period until loan repayments are required, even if forgiveness is not applied for or approved (interest will still accrue during this grace period but no interest payments are required on forgiven loan amounts).

Payroll expenses are limited to no more than a pro rata equivalent of $100,000 in annual compensation paid or accrued during the covered period. But employer-contributed or accrued retirement and group insurance contributions during the covered period are an additional qualified payroll expense on top of the wage compensation ceiling. And with the expansion of what can be included under other qualified expenses, it is worthwhile to take a little more time to identify and include every eligible dollar in the forgiveness application.

To find out more, call 800.426.3750
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