



## PP&Co Action Alert – 12/30/2020

### President Signs Consolidated Appropriations Act, 2021 Includes Round Two of PPP Loans

On December 27<sup>th</sup>, following tense deliberations, President Trump signed into law the [Consolidated Appropriations Act, 2021 \(CAA\)](#). The CAA will enhance some existing provisions to the **CARES Act**, including an additional \$284 billion earmarked to fund round two of the Paycheck Protection Program (PPP). Here we summarize provisions of the CAA:

1. The CAA provides for another round of stimulus checks of \$600 for individuals, \$1,200 for married couples, plus \$600 for each qualifying child. Nonresident aliens and anyone who qualifies as another person's dependent are not eligible to receive a payment. The credit can be claimed on a 2020 tax return. The bill also provides for an advance payment based on the information on 2019 tax returns.
  - a. Phaseouts: \$75,000 for single, \$112,500 for heads of household, and \$150,000 for married filing jointly. The payments will be based on 2019 tax returns. Once again, the payment is an ADVANCE, to be reconciled on your 2020 income tax return. If the amount of the credit reported on your 2020 return exceeds the advance, you claim the rest on your return. If the advance exceeds the credit you compute on your 2020 return, there is no 'true up,' and you get to keep the excess.
2. Section 276 of the CAA clarifies deductibility of expenses paid with proceeds of a PPP loan - "NO DEDUCTION SHALL BE DENIED OR REDUCED, NO TAX ATTRIBUTE SHALL BE REDUCED, AND NO BASIS INCREASE SHALL BE DENIED, BY REASON OF THE EXCLUSION FROM GROSS INCOME."
  - a. This applies to all borrowers, even those who have already applied for forgiveness.
  - b. Expenses paid with PPP funds are completely deductible.
  - c. Note that expenses paid with the proceeds of a PPP loan that are forgiven are not deductible for California taxes. California may change its rules to comply with the Federal rule regarding deductibility, but has not yet done so as of the date of this notice.
3. New expenses eligible for forgiveness:
  - a. Payments for business software and cloud computing that facilitate business operations
  - b. Uninsured costs related to property damage from looting due to public disturbances that occurred during 2020, etc.
  - c. Certain "essential" supplies
  - d. Capital expenditures required to facilitate business operations to comply with CDC, OSHA – social distancing, etc.
4. New option for covered periods - only PPP proceeds paid or incurred during covered period are eligible for forgiveness. Previously you had to use an 8- or 24-week period. Now, the borrower has the right to choose ANY covered period beginning on the date of the loan and ending on a date selected by the borrower during the period (beginning on the date that is 8 weeks after the loan and ending on 24 weeks after the loan origination).
5. Streamlined forgiveness for loans under \$150,000 - now only required to submit a one-page form – not subject to required reductions in forgiveness by headcount, etc.
6. Second Round of PPP loans
  - a. For those who have already borrowed and fully used their original PPP loan – the PPP2 loan amount is determined by multiplying 2.5 by the average monthly 2019 payroll or the one-year period before the loan, limited to \$2 million.
  - b. For restaurants, bars, and others in the hospitality industry – will be permitted to borrow 3.5 times average monthly payroll mentioned above, limited to \$2 million.
  - c. More stringent rules to be eligible for second round – must have fewer than 300 (not 500) employees and be able to establish that they experienced a 25% drop in gross receipts (not defined yet) during a quarter in 2020 **RELATIVE TO THE SAME QUARTER IN 2019**.
    - i. As with the first round of loans, proceeds can be used on payroll costs, rent, utilities, mortgage interest, and the new categories above. The same 40% non-payroll cost limit applies.
7. Employer payroll tax deferral – the CAA extends the due date for the payroll tax deferral to be repaid from April 30, 2021 to December 31, 2021.
8. Credits for paid sick and family leave (Families First Coronavirus Response Act (FFCRA)) has been extended from December 31, 2020 to March 31, 2021.
9. Unemployment insurance – the CAA provides for \$300 per week for all workers receiving UI – also extends period to claim benefits until March 14, 2021.
10. Employer retention credit extended – previously only available through 2020. Now extended through July 1, 2021, with credit percentage increased from 50% to 70% of qualified wages.
  - a. Qualified wage definition is expanded from \$10,000 total per employee to \$10,000 per quarter per employee so that the maximum credit for 2021 will be \$14,000 per employee.
  - b. The 50% quarter-to-quarter drop requirement to be an eligible quarter has been reduced to 20% as compared to the same quarter in 2019.
11. Business meals for 2021 and 2022 will be fully deductible.
12. Medical deduction AGI threshold reduction to 7.5% made is permanent.

Have questions about provisions in the bill? We can help. Contact us at [info@ppandco.com](mailto:info@ppandco.com) or (408) 287-7911 for assistance. For information and updates, check out our [COVID-19 Resources & Updates](#) webpage.

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