EHTC
CPAs & Business Consultants

Grand Rapids Chamber Town Hall: Consolidated Appropriations ACT 2021
COVID-19 Relief Bill and Omnibus Spending Bill

January 11, 2021
David Echelbarger, CPA, CGMA
- Managing Partner at EHTC
- Chair of the Tax & Regulatory Affairs Committee for the GR Chamber
- Serves on the First National Bank of Michigan Board of Directors and the Information Technology Steering Committee
- Immediate Past Chair of the Board of Directors and the Executive Committee for the Michigan Association of Certified Public Accountants

DavidE@ehtc.com

Mike Young, CPA
- Senior Tax Manager at EHTC
- Leads EHTC’s Transaction Advisory Services Team

MikeY@ehtc.com
Agenda

Awareness of the Following:

- Recent Update
- Overview of PPP
- Eligible Expenses
- Loan Forgiveness
- Employee Retention Credit (ERC)
- Economic Injury Disaster Loans (EIDL)
- Loans set aside for minority owned and underserved communities
- Family First Coronavirus Response Act: Employer Paid Leave
- Extension and Expansion of 7(a) and 504 Loan Debt Forgiveness
- Other Tax Provisions
Recent Update

SBA and Treasury Announcement 1/8/2021

January 11, 2021 – FIRST DRAW

- Community Banks, Credit Union, Farm Services Eligible Expenses – to support the smaller, underserved and minority businesses

January 13, 2021 – SECOND DRAW

Shortly thereafter – Open to all Lending Institutions
Paycheck Protection Program

An SBA loan that helps businesses keep their workforce employed during the Coronavirus (COVID-19) crisis

---

Content

Notice: Paycheck Protection Program closed August 8, 2020
Loan Details
Loan Forgiveness
Who Can Apply
Lender Forms and Guidance
Program Data
Other Assistance

Notice: Paycheck Protection Program closed August 8, 2020
How To Apply

You can apply through any existing SBA 7(a) lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Other regulated lenders will be available to make these loans once they are approved and enrolled in the program. You should consult with your local lender as to whether it is participating in the program.

If you wish to begin preparing your application, you can download the following PPP borrower application forms to see the information that will be requested from you when you apply with a lender:

- Paycheck Protection Program First Draw Borrower Application Form (revised 01/08/2021)
- Paycheck Protection Program Second Draw Borrower Application Form (01/08/2021)
PPP2 Qualification

Second Draw Loans

- 300 or fewer employees (aggregation test applies)
- Have used or will use the full amount of their first PPP loan
- Can show a 25% gross revenue decline in any 2020 quarter compared with the same quarter in 2019
- IFR Issued 1/6/2021 – can compare total annual receipts in 2020 to annual receipts in 2019 vs. quarter-by-quarter;
- Maximum of $2 million loan
- SBA Form 2483-SD

First Draw Borrowers

- Generally, businesses with 500 or fewer employees that are eligible for other SBA 7(a) loans (aggregation test applies)
- Sole proprietors, independent contractors, and eligible self-employed individuals
- Nonprofits, including churches
- Added 501(c)(6) and news organizations (subject to limitations)
- Revised SBA Form 2483
Other PPP Provisions

- Last day to apply for 1st and 2nd Draws 3/31/2021
- Borrower under $150,000 can submit revenue decline documentation at forgiveness vs. application
- Defines a seasonal employer: (1) operates for no more than seven months in a year, or (2) earned no more than 1/3 of its receipts in any six months in the prior calendar year.
- Loans can be recalculated if would result in a larger loan
- Borrowers who returned all or part of their original loans may reapply if they have not received forgiveness
- Businesses that are ineligible for PPP
  - Businesses not in operation on February 15, 2020
  - Entities receiving grants under the Economic Aid to Hard hit Small Businesses, Nonprofits and Venues Act
  - Publicly traded businesses
  - Entities that have permanently closed
  - Entities in Bankruptcy have special requirements
- Lobbying organizations
Eligible Costs

- Like PPP1, Payroll (plus group life, disability, vision or dental), Rent, Covered Mortgage Interest and Utilities
- Covered worker protection and facility modification expenditures, including personal protective equipment, to comply with COVID-19 federal health and safety guidelines
- Covered supplier costs, i.e., expenses incurred by a borrower under a contract or order in effect before the date the PPP loan proceeds were disbursed for the supply of goods that are essential to the borrower’s business operations
- Covered operational expenditures, i.e., payments for software or cloud computing services that facilitate business operations, product or service delivery, the processing, payment or tracking of payroll expenses, human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records and expenses; Accounting needs
- Covered property damage, i.e., costs related to property damage and vandalism or looting due to public disturbances that took place in 2020, which were not covered by insurance or other compensation
Loan Terms

- PPP borrowers may receive a loan amount of up to **2.5 times** their average monthly payroll costs in 2019 or the 12 months before the loan application.
- Borrowers with NAICS codes starting with 72 (hotels and restaurants) can get up to **3.5 times** their average monthly payroll costs.
- Maximum loan $2 million ($10 million first round including adjustments); Maximum of $4 million for businesses that are part of a single corporate group.
- PPP borrowers will have to spend no less than 60% of the funds on payroll over a covered period of **between 8 and 24 weeks** selected by the borrower.
Loan Forgiveness: PPP1 & PPP2

- Finally! Expenses Related to PPP loans are deductible for federal income tax purposes!
  - If you filed a tax return and did not take the deduction, you can amend your return
  - IRS Revenue Ruling 2021-02 supports the CAA

- **EIDL Advances (Grants) will not reduce the PPP forgiveness amount**
  - SBA will provide procedures for those loans already forgiven

- **Simplified loan forgiveness** for loans $150,000 or less
  - Sign and submit a one-page form with loan amount and # of employees retained
  - Estimate of loan amount spent on payroll
  - Attest to complying with PPP requirements
  - Document revenue decline for eligibility
  - Retain records – 4 years for employment 3 years other
Employee Retention Credit (ERC)

Changes Employee Retention Credit

- Previous Expiration was 1/1/2021; extended to 7/1/2021
- PPP Loan Eligibility – Previously PPP recipients could not receive the ERC
- PPP recipients can claim the ERC on wages in excess of those utilized for PPP forgiveness
- The Affiliation limitation was removed – (more than 50% common ownership of a PPP recipient)
- Claiming a 2020 credit; amend Form 941 for each eligible quarter
# Employee Retention Credit 2020/2021

<table>
<thead>
<tr>
<th>Amount of Credit Available</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>50% of qualified wages (including health benefits; Maximum wages per quarter $10,000)</td>
<td>$5,000 per employee for the entire year</td>
<td>$7,000 per employee for each of the first two quarters</td>
</tr>
</tbody>
</table>

| Maximum Credit | $5,000 per employee for the entire year | $7,000 per employee for each of the first two quarters |

<table>
<thead>
<tr>
<th>Eligibility Requirements</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) business operations were either fully or partially suspended by a COVID-19 lockdown order -OR- A) gross receipts were 50% less than the gross receipts for the same quarter of 2019</td>
<td></td>
<td>A) business operations were either fully or partially suspended by a COVID-19 lockdown order -OR- A) gross receipts 20% less than the gross receipts for the same quarter of 2019</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Eligibility and Working Employees</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater than 100 employees: No credit available for wages paid to an employee who continued to provide services to the employer</td>
<td></td>
<td>less than 500 employees: Eligible for the credit regardless of the employees' working condition</td>
</tr>
<tr>
<td>Less than 100 employees: Eligible for the credit regardless of the employees' working condition</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Employee Retention Credit

- Special rules for seasonal employers and employers not in existence in 2019
- Removes the 30-day wage limitation allowing employers to pay bonuses or hazard pay (all periods)
- Provides a safe harbor allowing employers to use prior quarter gross receipts to determine eligibility for current quarter
- Credits can be claimed by retaining a portion of the federal tax deposit, including federal withholding, or by completing Form 7200
- Any advanced credit received will be reconciled on the quarterly Form 941
- Treasury and the SBA will provide guidance related to payroll costs covered by PPP
Grants for Shuttered Venue Operators

- Newly-Enacted grant program
- $15B targeting businesses severely impacted by the pandemic, including:
  - Live venue operators and promoters
  - Theatrical producers
  - Live performing arts organization operators
  - Museum operators
  - Motion picture theatre operators
  - Talent representatives

- Eligible if gross revenue decreased by 25% or greater
- Grants are limited to the lesser of $10M or 45% of 2019 gross earned revenue
- Those receiving grants from the Shuttered Venue Operators Program cannot apply for a second round of PPP funding
  - Important distinction: funds available may dictate decision-making process. Far less funding in the SVO program, but likely more attractive/greater funding
Economic Injury Disaster Loans
EIDL

- Funding for EIDL Loans = $20 Billion
- Reopening of EIDL Grant/Advance program
  - Up to $10,000 grant (in total)
  - Preference given to employers who:
    - Have less than 300 employees
    - Located in a low-income neighborhood
    - Experienced a reduction in gross receipts of 30% or greater in any 8-week period between March 2 and December 31 when compared to 8-week period prior to March
  - Businesses can reapply if they received less than the full $10,000 in prior grants (and receive the difference)
- Just as was the case with the first round, applying for or receiving EIDL Grant does not impact eligibility in applying for PPP funding
- Clarity is needed from SBA
Loans set aside for minority owned and underserved communities

- $15B set aside for specific businesses
  - Targeting businesses with 10 or fewer employees
  - Businesses located in low-income neighborhoods
How should business prepare?

Timeline

- 1/4/2021 – 1/14/2021 Treasury and SBA issue forms and guidance
- 1/11/2021 – 1/14/2021 SBA starts receiving PPP Applications
- First 2 days reserved for community financial institutions and Minority, Underserved, Veteran and Women-Owned Businesses

Next Steps

- Determine your lender and discuss process and timeline
- Review Qualifications
  - ERC Reduction of Revenue
  - PPP Reduction of Revenue
- Gather documents
  - PPP Application information
- Consult with CPA and Bank
- Stay tuned
- IFR’s released 11:30 pm 1/6/2021 82 pages consolidating previous IFRs and 42 pages with updates on Second Draw
Family First Coronavirus Response Act: Employee Paid Leave Rights

- Emergency sick and child-care leave credits extended through March 31, 2020 on a voluntary basis
  - Mandated portions of the FFCRA did sunset at the close of 2020
  - CAA provides employers the option of continuing to offer employees sick leave/family & medical leave for COVID-19 related reasons in exchange for payroll tax credits
- Clarifications have been made for self-employed individuals
Extension of SBA 7(a) and 504 Loan Debt Forgiveness

- CARES Act provided businesses with existing 7(a) or 504 loans prior to September 21, 2020 would receive forgiveness for six months.

- Stimulus bill provides an additional three months of forgiveness (capped at $9,000 per month), beginning in February 2021, for any existing 7(a) or 504 Loans.

- An additional five months of forgiveness for 7(a), 504, Microloans, Community Advantage Loans, or those in especially hard-hit sectors.
  - Deemed hard-hit sectors includes food service industry, education services, entertainment and recreation, rental and leasing services, among many others.
Expansion 704(a) and 504 Loan Debt Forgiveness

- Program has been expanded to include 7(a) and 504 loans established between December 22, 2020 and September 30, 2021
  - These loans will receive six-month forgiveness, matching provisions provided in the CARES Act
  - Significant consideration for those looking to acquire/expand with the help of SBA financing
- General reminder that all 7(a)/504 loan forgiveness is taxable, however the interest component of the forgiven payments is deductible
Other Tax Provisions

Business meal deduction: Businesses may deduct 100% of business-related restaurant meals during 2021 and 2022 (the deduction currently is available only for 50% of those expenses).

In case you were wondering: The following “Tax Extenders” were provided a renewed five-year life:

- New Markets Tax Credit
- Work Opportunity Tax Credit
- Health Coverage Tax Credit
- Carbon Oxide Sequestration Credit
- Employer credit for paid family and medical leave
- Empowerment zone tax incentives
- Exclusion from gross income of discharge of qualified principal residence indebtedness
- Seven-year recovery period for motorsports entertainment complexes
- Expensing rules for certain productions
- Oil spill liability trust fund rate