



Congress Approves New Round of PPP and Rules on Deductibility

Here's what happened:

Congress has been meeting seemingly around the clock in an effort to pass a bill before heading home for the holidays which, among other things, would provide a much needed second round of Paycheck Protection Program (PPP) Stimulus. As of Sunday, December 20th, they were finally able to agree on negotiations to approve this bill. President Trump is expected to sign this bill into law shortly.

The details:

Updates to the existing PPP program:

First and foremost, the issue regarding deductibility of expenses used for PPP1 loan forgiveness was finally resolved as congress agreed, despite the push-back of Treasury, to include legislation that allows for the deductibility of such expenses. This means that businesses who received a PPP1 loan (application deadline of August 8, 2020) and expect that loan to be forgiven, can now **deduct** those related expenses from taxable income. This will result in a tax-free infusion of cash into many small businesses across America, which is in line with the original Congressional intent.

In addition to the deductibility of those expenses, additional items have been added to the list of qualified expenses for loan forgiveness. Among these are operating expenditures related to software or cloud computing that facilitates business operations, property damage costs (due to looting/vandalism that occurred during 2020 and were NOT covered by insurance), certain supplier costs, and covered worker protection expenses related to the adaptation of businesses per regulatory requirements imposed by the CDC, Health and Human Services, etc. These additional expenditures are only allowable for businesses that have not yet applied for forgiveness.

Congress also provided for modified covered periods in relation to the first round of PPP which gives businesses the option to select a covered period that falls anywhere BETWEEN 8 and 24 weeks after the loan origination date.

The bill repeals the requirement that EIDL (Economic Injury Disaster Loans) advances be deducted from the PPP forgiveness amount and it allows the Employee Retention Credit to be claimed by PPP loan recipients.

Finally, also retroactive to the first wave of PPP is a much-desired streamlined application process for loans amounting to \$150,000 or less. These applications require qualified businesses only to submit a one-page application that identifies the number of employees the borrower was able to retain as a result of receiving the PPP loan, the estimated amount of loan proceeds spent on payroll costs, and the total amount. Beyond that, borrowers need to simply attest to the fact that they complied with PPP requirements and they are done. Gone is the need for hours and hours of painstaking calculations and document retrieval.



PPP2 Stimulus

The second wave of stimulus will appropriate roughly \$900 billion for a host of provisions but for purposes of this post, we will focus on PPP2 specifically. To begin, the maximum loan amount allowed in this round is \$2 million, down from \$10 million with PPP1, and it will target two groups specifically:

1. **A second draw for the hardest hit borrowers from PPP1.** Items to consider for qualifications of this group are as follows:
 - 300 or fewer employees; and
 - 25% gross receipts decline in any quarter in 2020 compared with the same quarter in 2019
 - EIDL and PPP proceeds are NOT included in gross receipts
 - Based on calendar quarter (not any consecutive 3-month period)
 - Tiered system where certain loans only require self-certification while others will need supporting documentation
 - Full use of the first PPP loan amount
 - All loans will be subject to SBA review – congress is appropriating funds to the SBA to support manpower needed to conduct reviews of PPP loan applications so it can be expected that there will in fact be reviews by the SBA.

2. **First time PPP borrowers.** Eligibility is as follows:
 - Businesses with 500 or fewer employees that are eligible for other SBA 7(a) loans
 - Sole proprietors, independent contractors, and eligible self-employed individuals
 - Accommodation and food service businesses that average less than 500 employees per physical location
 - Non-profits, including churches
 - NEW in this round is 501(c)(6) and destination marketing organizations with 150 or fewer employees – think economic development, chambers of commerce, tourism, etc. – subject to certain lobbying thresholds

The structure of PPP2, including the loan calculation formula, eligible use of proceeds, and forgiveness feature is very similar to that of the updated PPP1. In general:

- The loan amount will be computed as 2.5 months of payroll. ****Hotels and restaurants can get up to 3.5 times their average monthly payroll costs (subject to the \$2 million maximum).****
- Eligible uses of PPP2 funds will include payroll, rent, utilities, and mortgage interest just as in PP1 as well as the additional eligible expenses noted in the “Updates to PPP1” section above.
- PPP2 loan forgiveness will be tax-free and related expenses are deductible.
- Simplified forgiveness process

What should you do now?

It is expected that the SBA will begin accepting PPP2 loan applications late December or early January, so now is the time to begin considering the need for a second PPP loan and whether



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your business satisfies the requirements outlined above. Watch for additional WVC resources including blog posts and webinars with more details on PPP2 and other items included in this round of stimulus. Contact your William Vaughan Company advisor to discuss other nuances of the PPP2 stimulus.

Connect With Us.

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