

## What Small Business Owners Need To Know About The New Stimulus Package

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The stimulus package is finally here, with just days left in 2020. It's a giant, last minute bill—[some 5,593 pdf pages long](#)—but fortunately, you don't have to read the whole thing. Here are the important parts for small business owners.

### The two provisions you've been waiting for

Let's get the two big items out of the way.

First, Congress has resolved [the debate about deducting expenses](#) paid with Paycheck Protection Program (PPP) funds. Those expenses are deductible, and the loan amount isn't included in gross income. That's a big win for business owners, not to mention all of the tax professionals who worried about having to figure out how that worked.

An additional bonus is that the Economic Injury Disaster Loan (EIDL) advances are also received tax free and you're allowed to deduct the expenses.

The new bill also dramatically simplifies the application for loans under \$150k. Under the new rules, you just need to sign and submit to the lender a certification that provides:

- The number of employees the eligible recipient was able to retain because of the covered loan.
- The amount of your loan that you spent on eligible payroll costs.

- An attestation that you accurately provided information, complied with the applicable requirements and plan to retain records for the required period. That's four years for employment records and three years for other records.

The application won't be more than one page and should be available within 24 days after this bill becomes law. Additionally, you won't be required to submit any additional records.

The simplified process will apply to more than 85% percent of PPP loans, that is, to the some **4.5 million out of 5.2 million** total that borrowed less than \$150,000. Those of you over \$150k will still need to provide documentation and verification.

## **Expansion of PPP**

Congress expanded the PPP program by making several additional types of expenses eligible for forgiveness. These include:

- *Covered operations expenditures:* These are payments for any business software or cloud computing service that facilitates business operations, product or service delivery, the processing of payment, or tracking of payroll expenses, human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records and expenses.
- *Covered property damage costs:* These are costs related to property damage and vandalism or looting due to public disturbances that occurred during 2020 that were not covered by insurance or other compensation.
- *Covered supplier costs:* These expenditures were made to a supplier and were a) essential to the operations of the entity at the time the expenditures was made and b) made pursuant to a contract or purchase order in effect any time before the covered period or, for perishable goods, any time during the covered period .

- *Covered worker protection expenditures:* These are operating or capital expenditure made to comply with COVID-related requirements established the Department of Health and Human Services, the Centers for Disease control the Occupational Safety and Health Administration or by state and local governments.
- *Group life, disability, vision and dental insurance are included as payroll costs.*

All the original covered expenses, including payroll, interest on covered mortgage obligations, rent and utilities are still eligible for forgiveness.

### **A second PPP loan**

The other good news is that the new bill offers a second PPP loan for companies with fewer than 300 employees who suffered a 25% drop in any quarter's revenue from 2019 to 2020.

The maximum loan amount, for most business owners, can still be calculated by multiplying your average monthly payroll by 2.5. But this time, you get to pick the period of 2019 or the one-year period before the date the loan was made. However, the bill allows a multiplier of 3.5 instead 2.5 for larger loans for the "accommodation and food service" industry (NACIS 72). The maximum loan is \$2M vs. \$10M as before.

### **Employee Retention Tax Credit**

The bill also expands the [Employee Retention Tax Credit \(ERTC\)](#). Originally this credit was largely overlooked because it could not be used in conjunction with the Paycheck Protection Program. Additionally, to qualify, employers had to meet one of the following criteria:

- Your business is wholly or partially suspended by government order due to COVID-19 (like a stay-at-home or non-essential business order) during the quarter; or
- Your gross receipts for 2020 are below 50% of the comparable quarter in 2019. However, once your gross receipts got above 80% of a comparable quarter in 2019, you no longer qualified after the end of that quarter.

The amount of the credit was originally 50% of qualifying wages paid from March 12, 2020 – January 1, 2021 up to \$10,000 in total. The new bill allows the ERTC to be used in conjunction with PPP, as long as it's used for wages not paid with PPP funds. The credit is increased to 70% of qualified wages each quarter and extends the time frame to July 1, 2021. Lastly the bill increases the \$10,000 per quarter, rather than in total. All of these adjustments make it very attractive for small business owners.

### **Money set aside for CDFIs**

Lastly, one of the things I was most interested in seeing was how much money was being set aside for Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs). As [we saw in the last round of PPP](#), many business owners of color were left out of the program. And with limited funds, this round of funding is likely to be just as chaotic.

Subtitle C of the bill provides \$9 billion in funding that will provide low-cost long term capital investments to CDFIs and MDIs that are depository institutions and \$3 billion to the CDFI Fund to provide grants and other financial institutions to conserve consumers, small businesses and non-profits in their communities. We will have to see if that is enough to reach the communities that need it the most.

### **What now?**

The new bill is exciting, but remember, it hasn't been voted on yet. Most experts expect it to pass, but it's not law until it does. Even after that, the SBA will have a lot of work to do

to make it function. For instance, they'll have just 10 days to implement the new regulations and 24 days for the simplified application.

It's also a relatively modest bill. Many economists think it's not nearly enough to save small businesses. The Biden administration may well have to negotiate another stimulus package next year—which will be tough going if the GOP maintains control of the Senate.

So as always we'll have to exercise some patience here. And if the past year is any indication, we will see a lot of adjustments as the bill gets implemented.