

February 18, 2021

Dear Friends and Colleagues,

There have been further developments and clarifications regarding the Consolidated Appropriations Act of 2021 (CAA) and the Paycheck Protection Program (PPP). Below are some items we feel you should know about.

California PPP Deductibility

It appears that California has opted to partially conform to the new federal tax treatment for loans provided through the Paycheck Protection Plan.

California will only allow companies to deduct up to \$150,000 in expenses covered by the PPP loan.

All businesses that took out loans of \$150,000 or less will be able to maximize their deduction for state purposes. Those companies that took out higher loans will only be allowed a \$150,000 deduction, with the difference being treated as taxable for California purposes.

Example 1 – PPP Loans under \$150,000

	<u>Federal</u>	<u>California</u>
Loan Amount	\$ 125,000	\$ 125,000
Deductions Allowed	<u>(125,000)</u>	<u>(125,000)</u>
Taxable Amount	<u>\$ -0-</u>	<u>\$ -0-</u>

Example 2 – PPP Loans over \$150,000

	<u>Federal</u>	<u>California</u>
Loan Amount	\$ 450,000	\$ 450,000
Deductions Allowed	<u>(450,000)</u>	<u>(150,000)</u>
Taxable Amount	<u>\$ -0-</u>	<u>\$ 300,000</u>

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SBA Covered Loan Payments Non-Taxable

Similar to the forgiveness of PPP loans, SBA borrowers who had up to six months of loan payments covered by the government will not have to pay tax on those funds. Congress provided full tax relief to the recipients, so any payments received are considered tax free.

Additional SBA Loan Subsidy Payments

Borrowers with SBA loans in place before March 27, 2020 received loan subsidy payments for up to six months. The new law provides for an additional three months of Loan Subsidy Payments. The loans must be in good standing, and no single monthly payment of principal, interest, and associated fees may total more than \$9,000.

E-Filing and Direct Deposits Recommended

According to the IRS, tax returns that are paper filed, and/or refunds using paper checks will take much longer to process this year. Filing electronically and opting to receive refunds via direct deposit will significantly decrease the processing time.

Recovery Rebate Credit

Most people eligible for the Recovery Rebate Credit have already received the full amount in two rounds of payments, known as Economic Impact Payments.

If you have received the correct, full amount of each Economic Impact Payment, you don't need to claim or report this on your 2020 tax return. However, if you're eligible and you either didn't receive any Economic Impact Payments or received less than the full amount, you should file a 2020 tax return to claim the Recovery Rebate Credit, even if you are not required to file a tax return for 2020.

These payments were based on your 2018 or 2019 tax year information. The latest Recovery Rebate Credit is similar, except that the eligibility and the amount are based on the 2020 information you include on your 2020 tax return.

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Tax Deadlines Unchanged

There has been no adjustment to the typical tax deadlines for 2020 and/or 2021. We do not expect this to change in the coming weeks.

PPP Loans - First Draw

If you didn't receive a PPP loan in 2020 – either by choice or by accident (the application deadline was August 15, 2020) – then here is another chance. CAA has reopened the original PPP loan program - labeled First Draw - until March 15, 2021.

For the most part, guidelines, limits, and application rules are the same as before. You are eligible under the original program if:

- You did not already receive a PPP loan last year;
- Your business was in operation on February 15, 2020;
- You have 500 employees or less.

As before, the maximum loan amount is based on 2.5 times your average monthly payroll costs. Forgiveness requirements – 60/40 spending on payroll/non-payroll, employee headcounts, stability in compensation – remain the same.

PPP Loans - Second Draw

For businesses that took advantage of the First Draw PPP Loans, but remain in need of additional assistance, CAA introduced the Second Draw PPP Loan Program.

To be eligible for Second Draw, your business must have:

- Been in operation on February 15, 2020;
- Received a First Draw PPP Loan;
- 300 or fewer employees;
- Used the full amount of the First Draw;
- Experienced a drop in revenue of 25% or more in 2020 compared to 2019.

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The 25% drop in revenue requirement is the new wrinkle for the Second Draw loans, as they are meant for businesses truly in need. One way to calculate this revenue drop is to compare your annual revenue for 2020 to 2019; if revenue was down 25%, then you qualify. If, on an annual basis, you don't qualify, then you can analyze quarter by quarter. Compare a quarter in 2020 to the corresponding quarter in 2019; if revenue dropped by more than 25% in that particular quarter, then you qualify.

As with the First Draw loans, the maximum amount of the loan is two-and-a-half times your average monthly payroll costs. You can use calendar year 2020 or calendar year 2019 - whichever is more favorable - in calculating the amount.

The loan forgiveness process for Second Draw loans is similar to First Draw.

Deadline to Apply for Forgiveness

There has been some confusion as to when the deadline is to submit the PPP Forgiveness Application. As long as the borrower submits its loan forgiveness application within 10 months of the completion of the Covered Period, the borrower will not be required to make any principal or interest payments to the SBA. So, as an example, if your Covered Period ended August 31, 2020, then your deadline is June 30, 2021. If the loan is fully forgiven, the borrower will not be responsible for any payments. If only a portion of the loan is forgiven, or if the forgiveness application is denied, any remaining balance due on the loan must be repaid by the borrower on or before the maturity date of the loan.

Should you have any questions about the above, please feel free to contact our office at any time.

Sincerely,



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