



Robert R. Roback, Sr. CPA, CFS, CFA In Memory of (1956-2011)  
Daniel R. Kumlander, CPA  
Jeffrey D. Donofrio, MBA, CPA  
Kenneth E. Hay, CPA, CVA  
Timothy W. Pehl, CPA, CFP®

Dear Client:

December 31, 2020

There were two positive stimulus passages relating to the Payroll Protection Program at the end of 2020. The first passage relates to the initial Payroll Protection Program (PPP) funding. The second relates to additional opportunities for funding in 2021.

## **FORGIVENESS**

We have had many communications asking about the tax consequences of the Paycheck Protection Program (PPP) loans you have taken out in connection with the coronavirus (COVID-19) crisis.

Most of you have had your PPP loans forgiven. The reduction or cancellation of indebtedness generally results in taxable income. However, the forgiveness of PPP debt is **excluded from gross income**.

The CARES Act was silent on whether expenses paid with the proceeds of PPP loans could be deducted. IRS took the position that these expenses were nondeductible. However, the Consolidated Appropriations Act, 2021, enacted at the end of 2020, **provides that expenses paid from the proceeds of PPP loans are deductible**.

## **PAYROLL PROTECTION PROGRAM ROUND 2**

At the end of 2020, Congress passed, and President Trump signed, a new law that provides for additional relief related to the coronavirus (COVID-19) pandemic. This law, the Consolidated Appropriations Act, 2021 (CAA, 2021), includes a second draw of Paycheck Protection Program loans. The second draw also allows for businesses to deduct ordinary and necessary expenses paid from the proceeds of PPP loans.

The CAA, 2021 permits certain smaller businesses who received a PPP loan and experienced a 25% reduction in gross receipts to take a PPP Second Draw Loan of up to \$2 million.

*Eligible entities.* Prior PPP borrowers must meet the following conditions to be eligible for the PPP Second Draw Loans:

- Employ no more than 300 employees per physical location;

- Have used or will use the full amount of their first PPP loan; and
- **Demonstrate at least a 25% reduction in gross receipts in any quarter of 2020 relative to the same 2019 quarter.**

Eligible entities include for-profit businesses, certain non-profit organizations, housing cooperatives, veterans' organizations, tribal businesses, self-employed individuals, sole proprietors, independent contractors, and small agricultural co-operatives.

Borrowers may receive a PPP Second Draw Loan of up to 2.5 times the average monthly payroll costs in the one year prior to the loan or the calendar year. However, borrowers in the hospitality or food services industries (NAICS code 72) may receive PPP Second Draw Loans of up to 3.5 times average monthly payroll costs.

At this time we recommend that you test your gross receipts on a per quarter basis for the 2019 compared to same quarters of 2020 to determine if you have a 25% reduction in receipts **in any given** 2020 quarter to same 2019 quarter. Once the 2<sup>nd</sup> PPP application becomes available and more specific details are released we will update you.

Please contact our office with any further questions you might have on PPP loan forgiveness.

Very sincerely yours,

Kumlander, Donofrio, Hay & Pehl CPAs, LLP