Paycheck Protection Program

On December 27, 2020, President Donald Trump signed the Consolidated Appropriations Act, 2021 into law. The new law primarily focused on matters pertaining to COVID-19 relief. These items are compiled within the COVID-19-Related Tax Relief Act, which expands upon provisions from the CARES Act and Families First Coronavirus Response Act. The Paycheck Protection Program (PPP) recently received additional funding and clarification under the new legislation.

Through the COVID-19-Related Tax Relief Act, Congress confirmed that business expenses paid with PPP loan proceeds would be deductible. This clarifies the intention of the original legislation and supersedes IRS Notice 2020-32, which had stated that the business expenses would be nondeductible since the forgiven PPP loan would also be excludable from taxable income. As a result, the legislation explicitly states that business expenses derived from PPP loan proceeds are deductible even if the PPP loan is forgiven and excluded from gross income.

Another section of the new legislation, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, has increased the scope of expenses that could be potentially forgivable. The requirement that at least 60% of the PPP loan proceeds go towards payroll expenses is the same for both PPP1 and PPP2 loans. While the 60/40 rule for PPP loan proceed usage remains unchanged, there are now additional eligible expenditures that can potentially be claimed with the remaining 40% of the PPP loan proceeds. Originally, the remaining 40% of PPP loan proceeds could be utilized for expenses such as rent, mortgage interest, and utility costs; all of which are still permissible under the new legislation. Now, additional eligible expenses for both PPP1 and PPP2 loans include the following:

- **Supplier costs** – expenditures to suppliers that provide goods which are essential to the operation of the entity at that time of the payment which were made pursuant to a contract or order that was already in effect before the loan's covered period.
- **Operations expenditures** – payments for business software products or cloud computing services that facilitate any of the following: business operations, payroll management, product or service delivery, sales and billing functions, management of physical inventory and supplies along with expense tracking, or human resources.
- **Property damage costs** – incurred due to property damage, vandalism or looting from 2020 public disturbances that were not already reimbursed by insurance or other compensation.
- **Worker protection expenditures** – operating or capital expenditures to comply with guidance or requirements issued by the CDC, DHHS, OSHA, or any equivalent guidance or requirements set forth by an applicable state or local government.

Stimulus Payments

As part of the COVID-19-Related Tax Relief Act, eligible individuals will be receiving $600 economic impact payments, $1,200 for taxpayers who file their returns married filing jointly. Like the payments issued this past spring, these payments are technically refundable tax credits which will be excluded from taxable income and won't reduce one's 2020 tax refund.

While the tax treatment of the current payments is the same as the previous stimulus payments, there are some differences in eligibility and payment computation. Individuals with a SSN who filed their tax return married filing jointly with someone who has an ITIN rather than a SSN will now not only be eligible for the current payment but are also retroactively eligible for the previous payment from the CARES Act. Although the stimulus amount is down from the previous $1,200 per individual, the amount per eligible child dependent has increased to $600 from $500. The applicable phase outs for the current stimulus payments are summarized in the table below.

	Single/Married Filing Separately	*Head of Household*	*Married Filing Jointly*
AGI – payment phase out begins	$75,000	$112,500	$150,000
AGI – payment completely phased out	$87,000	$124,500	$174,000

Tax Extenders

Also within the new legislation was the Taxpayer Certainty and Disaster Tax Relief Act of 2020, which contains different tax extenders for various initiatives that were previously set to expire. This year, there has been some variety in the dates the provisions were extended until as opposed to the typical one-year extension. A handful have been extended through 2025, such as the work opportunity tax credit provisions, or permanently, like the decrease from 10% to 7.5% of AGI floor for medical and dental expenses on itemized deductions for individual tax returns.

Charitable contribution limitations were increased through 2021 for both business entities and individuals. For C-corporations, the percentage limitation for qualified cash charitable contributions made during tax year 2020 increased from 10% to 25%. The amount of qualified cash contributions exceeding the 25% limitation can be carried forward for the next five years. As for individuals, the qualified charitable contribution limitation increased from 60% to 100% of the contribution base. Additionally, 2020 individual tax returns will be permitted to claim a $300 charitable contribution deduction in determining adjusted gross income.

For tax years 2021 and 2022, business entities will be allowed to fully-deduct the cost of business meals if they were furnished by a restaurant. This temporary measure is primarily geared towards aiding the restaurant industry by providing business entities with an incentive to do so. For the upcoming tax year 2020, business meals will remain 50% deductible.

Since the scope of the new legislation is voluminous, please contact Pease, CPAs for additional information.