

Coronavirus Relief Bill Renews and Brings Changes to PPP and EIDL Programs

Description

On December 21, 2020, Congress passed an approximately \$900 billion coronavirus relief bill, the largest since the CARES Act was enacted in March. If signed into law, a portion of the bill labeled the “Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act,” would provide for a second round of PPP and EIDL loans, along with some important modifications to those programs.

Significantly, the bill reverses prior IRS guidance and provides that business expenses paid with forgiven PPP loans are tax-deductible.

The bill adds additional eligible expenses for PPP loan proceeds, including covered operating expenditures, such as software or cloud computing services, covered property damage costs not covered by insurance, covered supplier costs for goods that are essential to operation, and covered worker protection expenditures made to comply with health mandates. Employee group insurance premiums are also now considered eligible payroll costs.

The bill sets forth a simplified forgiveness application for loans up to \$150,000 based on borrower certifications without the need to submit additional documentation, and also specifies that publicly traded companies are ineligible for PPP loans. Certain local newspapers, broadcasters and 501(c)(6) organizations are now eligible for loans under the program.

The bill permits a second round of PPP loans called “second draw loans” for businesses with no more than 300 employees that have experienced a 25% or more reduction in gross receipts from 2019. Loan amounts can be up to 2.5x average monthly payroll costs (increased to 3.5x for the accommodation and food service industry) with an overall maximum of \$2 million. At least 60% of loan proceeds must be used on eligible payroll costs, or the forgiveness amount will be reduced. Second draw loans may only be made to entities that received and use all proceeds of a PPP loan during the first round. This second round of the PPP loan program will run through March 31, 2021.

The relief bill also extends the EIDL loan program for certain targeted entities. Eligible recipients must be located in a low-income community, have suffered an economic loss of greater than 30%, and have no more than 300 employees. The bill also sets forth a mechanism for entities that previously received EIDL advance grants of less than \$10,000 to receive additional funds up to a total of \$10,000.

Date Created

December 22, 2020