



# Paycheck Protection Program (PPP) Round 2: *Specifics and What We Know Now*

*Presented By: McMill CPAs & Advisors and Midwest Bank*

# PPP Deductibility

- Gross income does not include any amount that would otherwise arise from the forgiveness of a PPP loan.
- **Deductions are allowed** for otherwise deductible expenses paid with the proceeds of a PPP loan that is forgiven
- Tax basis and other attributes of the borrower's assets will not be reduced as a result of the loan forgiveness.\*
- **Effective as of the date of CARES Act**
- Also applies to Second Draw PPP loans

[IRS Revenue Ruling 2021-02 issued Jan. 6](#)



The screenshot shows the IRS Newsroom interface. At the top is the IRS logo and the date January 6, 2021. The main headline is "Eligible Paycheck Protection Program expenses now deductible". The text below the headline states: "WASHINGTON – The Treasury Department and the Internal Revenue Service issued guidance today allowing deductions for the payments of eligible expenses when such payments would result (or be expected to result) in the forgiveness of a loan (covered loan) under the Paycheck Protection Program (PPP).". It further explains that today's guidance, Revenue Ruling 2021-02, reflects changes to law contained in the COVID-related Tax Relief Act of 2020, enacted as part of the Consolidated Appropriations Act, 2021 (Act), Public Law 116-260, which was signed into law on Dec. 27, 2020. The text continues: "The COVID-related Tax Relief Act of 2020 amended the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to say that no deduction is denied, no tax attribute is reduced, and no basis increase is denied by reason of the exclusion from gross income of the forgiveness of an eligible recipient's covered loan. This change applies for taxable years ending after March 27, 2020." It also mentions that Revenue Ruling 2021-02 obsoletes Notice 2020-32 and Revenue Ruling 2020-27. For more information, it directs users to visit IRS.gov. The page includes a sidebar with links to various news sections and a footer with social media icons.

IRS Newsroom January 6, 2021

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**Issue Number: IR-2021-04**

**Inside This Issue**

**Eligible Paycheck Protection Program expenses now deductible**

WASHINGTON – The Treasury Department and the Internal Revenue Service issued [guidance](#) today allowing deductions for the payments of eligible expenses when such payments would result (or be expected to result) in the forgiveness of a loan (covered loan) under the Paycheck Protection Program (PPP).

Today's guidance, [Revenue Ruling 2021-02](#), reflects changes to law contained in the COVID-related Tax Relief Act of 2020, enacted as part of the Consolidated Appropriations Act, 2021 (Act), Public Law 116-260, which was signed into law on Dec. 27, 2020.

The COVID-related Tax Relief Act of 2020 amended the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to say that no deduction is denied, no tax attribute is reduced, and no basis increase is denied by reason of the exclusion from gross income of the forgiveness of an eligible recipient's covered loan. This change applies for taxable years ending after March 27, 2020.

Revenue Ruling 2021-02 obsoletes Notice 2020-32 and Revenue Ruling 2020-27. This obsoleted guidance disallowed deductions for the payment of eligible expenses when the payments resulted (or could be expected to result) in forgiveness of a covered loan.

For more information about this, the COVID-related Tax Relief Act of 2020, and other tax changes, visit [IRS.gov](#).

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# PPP provisions in Consolidated Appropriations Act, 2021

**Last day to apply for 1<sup>st</sup> or 2<sup>nd</sup> draw PPP: March 31, 2021**



**\$284.5B  
for PPP funding**

## **Second draw loans for hardest hit borrowers**

- Generally 300 or fewer employees;
  - For businesses with multiple locations, not more than 300 employees per physical location
- 25% gross receipts decline in any quarter in 2020 compared to same quarter in 2019
  - EIDL and PPP aren't included in gross receipts
  - Appears to be based on calendar quarter (not a 3-month period or fiscal quarter). SBA/Treasury will determine.
- Has used **OR** will use full amount of first draw funds
- Comparison periods will differ for borrowers who weren't in operation the entire year of 2019.

# Gross receipts

- **All revenue** in whatever form received or accrued (in accordance with the entity's accounting method) from whatever source including
  - Sales of products or services
  - Interest, dividends
  - Rents
  - Royalties
  - Fees
  - Commissions
  - Reduced by returns and allowances

# Options for calculating decline in gross receipts

IFR issued Jan. 6 provides an alternative approach to calculating decline.

- A borrower that was in operation in all four quarters of 2019 can compare total annual receipts in 2020 to annual receipts in 2019 rather than doing a quarter-by-quarter comparison.
- Will submit copies of annual tax forms substantiating the revenue decline
- Option to show quarter over quarter loss by presenting internal financial statements or bank statements
- Alternatives for borrowers not in operation all of 2019
  - Must have started operations before February 15, 2020

# Second draw borrowers

**Loan amount:** Maximum loan amount = \$2 million

- Calculated at **2.5x average monthly payroll** costs
- **Restaurants, Hotels**, etc. (NAICS Code 72) at **3.5 x average monthly payroll** costs
- Seasonal = 12-week period Feb. 15, 2019 through Feb. 15, 2020
- New = total payroll divided by # months x 2.5
- **Can use 2019, 2020 or 12 months prior to application for payroll costs**
- **Cap of \$4M** for businesses that are part of a single corporate group **(1.6.21 IFR)**

## Covered Period

- Borrower can choose a covered period that is between 8 and 24 weeks.

# Second draw documentation

- Generally the same as documentation required for First Draw PPP Loans
- No additional documentation to substantiate payroll costs will be required if
  - Used calendar year 2019 figures to determine its First Draw and Second Draw loan amount and
  - The lender is the same
- For loans **over \$150,000** submit documentation on revenue decline such as:
  - Relevant tax forms, including annual tax forms, or, if relevant tax forms are not available, quarterly financial statements or bank statements
- For loans of **\$150,000 or less** documentation is not submitted with loan application but must be submitted on or before the date the borrower applies for loan forgiveness
  - SBA can request
  - Need to do the comparison anyway to determine eligibility

## Second draw process

- Borrower to submit to the lender SBA Form 2483-SD (Paycheck Protection Program Second Draw Borrower Application Form)
- Lender will submit a request through the SBA's site for the new loan
- Borrower must provide the lender with required documentation to support the calculation of the increase
- SBA will issue a loan number (will be delayed compared to 1<sup>st</sup> round)
- Lender will distribute funds once loan number received and note signed by the borrower



# Certifications

- Has not and will not receive another Second Draw
- Realized a reduction in gross receipts in excess of 25% relative to the relevant comparison time period.
- Has used or will use first draw only for eligible expenses
- Not an ineligible entity

# First draw borrowers

\$35B for 1<sup>st</sup> time  
borrowers

## Who's eligible:

- Generally businesses with 500 or fewer employees that are eligible for other SBA7(a) loans
- Sole proprietors, independent contractors, and eligible self-employed individuals.
- Any business that averages less than 500 employees per physical location that has a NAICS code starting with 72 (accommodation and food services)
- Nonprofits, including churches
- Adds 501(c)(6) and destination marketing organizations
  - 300 or fewer employees
  - Chambers of commerce, economic development, tourism
  - Subject to lobbying threshold (*15% of receipts, 15% of activities, \$1M*)
- Adds certain news organizations (*with limitations*)
- Adds housing cooperatives

# Other PPP Provisions

**Sch. F farmers and ranchers** can use gross income instead of net (either 2019 or 2020)

- Loans can be recalculated if would result in a larger loan
- Applies to PPP loans before, on, or after the date of enactment (unless loan is already forgiven)

Defines a **seasonal employer**: (1) operates for no more than seven months in a year, or (2) earned no more than 1/3 of its receipts in any six months in the prior calendar year.

Borrowers who **returned all or part of their original loans**

- May reapply for the difference if they have not received forgiveness
- SBA has 17 days after passage of the Act to provide guidance

Borrowers whose **loan amount was impacted by changing guidance**

- Can modify loan amounts even if loan has been fully disbursed

# PPP Ineligibility

Businesses that are **ineligible** for PPP

- **NEW** - entity that has permanently closed (*per 1.6.21 IFR on 2<sup>nd</sup> draw loans*)
- Businesses **not in operation on February 15, 2020**
- Entities receiving **Shuttered Venue Operator Grants**
- **Publicly-traded businesses**
- **Lobbying organizations**
- Hedge funds or private equity firms
- Entities affiliated the People's Republic of China
- Those registered under the Foreign Agents Registration Act
- If President, Vice President, head of an Executive department, Member of Congress or their spouse own at least 20% of any class of equity
- Entities listed in [13 C.F.R 120.110](#), unless otherwise made eligible
- Household employers
- In bankruptcy
- Other

**Note:** Detailed descriptions of newly eligible expenses are in Sec. 304 (b) (2)

# PPP Loan Forgiveness

## Costs eligible for loan forgiveness – first and second draws:

- Same as PPP 1:
  - Payroll costs (*clarified to include group life, disability, vision, or dental insurance*)
  - Mortgage interest • Rent • Utility payments
- Covered **worker protection expenditures**: PPE and costs to comply with COVID-19 federal health and safety guidelines
- Covered **supplier costs**: Expenditures to a supplier that are essential to the recipient's current operations
- Covered **operations expenditures**: Software, cloud computing, other HR/accounting
- Covered **property damage costs**: Costs related to 2020 public disturbances not covered by insurance or other compensation
- **Applies to original PPP loans and new PPP loans** (unless forgiveness has already been processed)

**60/40** split between payroll and non-payroll is maintained for 1<sup>st</sup> and 2<sup>nd</sup> draws

# Simplified forgiveness

## Simplified loan forgiveness for loans \$150,000 or less

- **SBA has 24 days to prepare the form**
- Sign and submit a one-page form
- Attest to complying with PPP requirements
- Loan amount
- # of employees retained
- Estimate of loan amount spent on payroll
- Retain records
  - 4 years for employment
  - 3 years for other
- Will be required to provide documentation to substantiate loss of revenue when apply for forgiveness



# Other Provisions



- **Repeal EIDL Advance deduction from PPP forgiveness**
- Extension of subsidy by SBA of other 7(a) loans
  - 3 months beg. Feb 2021
  - Capped at \$9k/month
  - Underserved will receive 5 more months
  - Tax treatment consistent with PPP
- Funding for Targeted EIDL Advances
  - Tax treatment consistent with PPP

# PPP Loan Forgiveness

**NOTE:** Detailed descriptions of newly eligible expenses are in Sec. 304 (b) (2) (page 2,043)

## Costs eligible for forgiveness

- Same as PPP 1: payroll costs (plus group life, disability, vision or dental); Mortgage Interest; Rent; Utility Payments
- Newly eligible include covered: worker protection expenditures; supplier costs; operations expenditures; and property damage costs.
- **60/40** split between payroll and non-payroll is maintained for 1st and 2nd draws

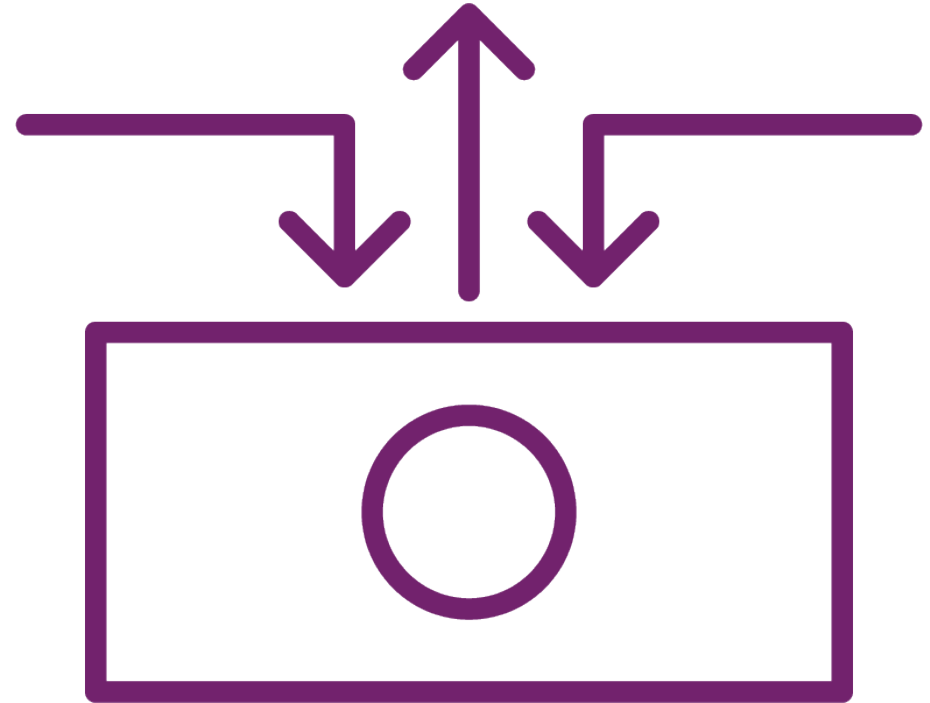
## Simplified loan forgiveness for loans \$150,000 or less

- Sign and submit a one-page form with loan amount and # of employees retained
- Estimate of loan amount spent on payroll
- Attest to complying with PPP requirements
- Document revenue decline for eligibility
- Retain records



# Tax

- Credits for paid sick & family leave
- Meals deductible 100% in 2021-2022
- Employee retention credit
- [PPP basis issues](#)
- [Payment and penalty relief](#)





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webinar!*

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in the coming weeks!*