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# Where Are We Now? An Update on COVID-19 Relief, Tax Law Changes, and PPP Loans

Presented by Edward P. Rigby, CPA, MST, Robbin E. Caruso, CPA, CGMA, and Robert O. Mayer, CPA

# Housekeeping

**We will be asking a number of polling questions throughout the webinar to gauge our audience.**



**Please submit any questions through the questions box on your control panel. We will answer each question after the conclusion of the session.**

**A full Q&A document will be sent to you along with a copy of this presentation and a link to the recording.**

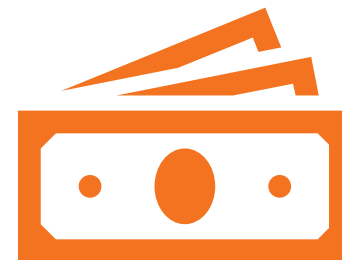


**This presentation is not intended as tax advice and the information presented is subject to change as guidance is released. Attendees are encouraged to discuss their specific situations with their tax advisor.**

# Overview

Highlights the key COVID-19 related relief of nearly \$900 billion signed into law on December 27, 2020 as part of the Consolidated Appropriations Act, 2021, H.R.133:

- Stimulus payments for individuals
- Additions to unemployment benefits
- Deductibility of expenses paid with Paycheck Protection Program (PPP) loans that are eligible for loan forgiveness
- New PPP loan opportunities
- Numerous other tax-related law changes



# Polling Question #1

Are you a CPA in need of continuing education credits?

- Yes
- No

# Stimulus Payments for Individuals – Second Round

- Eligible individuals will automatically receive **up to \$600** for this refundable tax credit. IRS & Treasury have begun issuing payments. Use [IRS Get My Payment Tool](#) to check on both initial and second payments.
- Married couples filing joint tax returns will receive **a maximum of \$1,200**
- **Additional \$600** per qualifying child will be paid through the stimulus benefit
- Payments are treated as an advance rebate of a 2020 tax credit
- Phaseout range begins (based on 2019 adjusted gross income (“AGI”)) at \$75,000 for single, \$112,500 for HOH and \$150,000 MFJ

# Recovery Rebate Credit

- Initial stimulus checks (*economic impact payment “EIP”*) were made available in 2020. These were a tax credit paid in advance to qualified taxpayers based on 2019 or 2018 income (\$1,200 single, \$2,400 MFJ, plus \$500 per qualifying child)
  - Note: Individuals will receive Notice 1444 in the mail regarding EIP payment
- If either a 1<sup>st</sup> or 2<sup>nd</sup> stimulus payment was not received or was less than full amount eligible, based on 2020 income, then taxpayers are entitled to a Recovery Rebate Credit
  - Note: Taxpayers may request this in 2021 when filing 2020 Form 1040 or 1040-SR (see Line 30 Instructions)

# Federal Unemployment Benefits

- Federal Pandemic Unemployment Compensation (FPUC) benefits extended through March 14, 2021
  - \$300 supplement payment per week
- Pandemic Unemployment Assistance (PUA) is for part-time, freelance, and self-employed workers not qualified for SUI benefits.
  - Extended 11 weeks (maximum number of weeks is now 50)
  - Applicant must provide proof of previous employment or self-employment within 3 weeks of applying
  - If approved for PUA by March 14, benefits can continue for another 4 weeks

# Federal Unemployment Benefits – Cont.

- Pandemic Emergency Unemployment Compensation (PEUC) is for workers who have exhausted state benefits. These benefits are extended through March 14, 2021
  - If approved for PEUC by March 14, can continue receiving benefits for 4 additional weeks
- Mixed Earner Unemployment Compensation for those earners with mixed self-employment and W-2 employment income.
  - May qualify for additional \$100 in addition to FPUC \$300 if they had \$5K or more of qualifying annual S-E income that they lost
  - This benefit is through March 14, 2021



# Polling Question #2

If you received a stimulus payment during the first round, how did you receive it?

- Mail
- Direct Deposit
- Debit Card
- Did not qualify or receive

# Extension of CARES Act Charitable Contribution Modifications

Bill extends the following enhanced charitable contribution limits to 2021:

- Allowing individual taxpayers to claim a \$300 “above the line” deduction for taxpayers that do not claim itemized deductions on their tax return
  - Note: For 2021, MFJ returns may claim up to \$600
- Increase to deduction percentage limitation from 60% of AGI to 100% of AGI for cash gifts to charities
- Deduction limit for corporation charitable contributions increased from 10% of taxable income to 25%
- Penalty for underpayments of tax attributable to overstated deductions is **increased from 20% to 50%!**

# Flexible Spending Accounts

- Act allows unused health and dependent-care FSA funds to be rolled over from 2020 to 2021 and again from 2021 to 2022
- Age threshold for reimbursing qualified expenses of dependent-care FSAs temporarily extended to under 14 (from under 13)
- FSA plans permitted to have prospective change in election amounts for health and dependent-care FSAs in mid-year for year 2021 if employer holds an open enrollment mid-year

# Big Win on Medical Expenses and Exempt Mortgage Debt Forgiveness



- Medical Expense threshold for itemized deductions is permanently set at 7.5% of adjusted gross income (AGI). It was set to return to 10% for 2021



- Mortgage debt forgiveness will be tax exempt for five years

# Polling Question #3

If you received a PPP Loan, how much was it for?

- \$0 - \$150,000
- \$150,001 - \$500,000
- \$500,001 or more
- I didn't receive one

# Paycheck Protection Program Refresher

## PPP Loan Terms

- Interest Rate: 1%
- Loans prior to June 5, 2020 have maturity of 2 years (unless renegotiated) and loans after that mature in 5 years
- For borrowers who apply for forgiveness, payments deferred until SBA remits their loan forgiveness amount to lender. Otherwise, payments deferred 10 months after end of covered period of 8 or 24 weeks
- Personal guarantees & collateral are NOT required
- No fees charges by government or lender

# Original Paycheck Protection Program:

Paycheck Protection Program, Key Terms			
	Covered Period		
	Pre- June 5	PPPFA	CAA, 2021
Period	8-Week*	24-Weeks	8 – 24 Weeks
Personal Guarantee	No	No	NO
Collateral	No	No	NO
Interest Rate	1%	1%	1%
Maximum Loan	\$10M	\$10M	1 <sup>st</sup> \$10M or 2 <sup>nd</sup> \$2M
Application Fees	Waived	Waived	Waived
Prepayment Penalty	No	No	No
Forgiveness Spending Rule - Payroll/Non-payroll costs	60/40	60/40	60/40
Term to repay	2 yr***	5 yr	5 yr
Deferral of Payment Start Date	10+ Months	10+ Months	10+ Months
Employee Cash <b>Compensation</b> ** Eligible for Forgiveness	\$ 15,385	\$ 46,154	Up to \$46,153
Owner <b>Compensation</b> Eligible for Forgiveness	\$ 15,385	\$ 20,833	Up to \$20,833
* May elect to use 8-week period for Loans made before June 5th. ** Wages, Salaries, tips, etc. ***May be mutually renegotiated to 5 years.			

# Who Can Apply for PPP Loans

- Small businesses meeting SBA size standards (industry or alternative)
- Sole proprietors, independent contractors, self-employed persons and small agricultural co-operatives
- Business with NAICA Code beginning with 72 (Accommodations and Food Services) that has more than one location and less than 500 employees per location
- Any business, 501(c)(3) non-profit org., 501(c)(19) veterans org., or Tribal business concern (sec. 31(b)(2)(C) of Small Business Act with greater of 500 employees or that meets SBA industry size standard if over 500
- CAA, 2021 expands on who may apply and how the loan is administered



# Deductibility for Business Expenses Paid with Forgiven PPP Loans, Research Tax Credits, and Basis Increase

Borrowers of PPP funds qualifying for tax-free loan forgiveness may deduct business expenses paid with such funds.

- Act overrides IRS' previously issued rulings (Notice 2020-32 and Rev. Rul. 2020-27) that borrowers would not be eligible to deduct expenses paid from PPP funds that qualified for loan forgiveness

**NOTE: On January 6, 2021 the IRS issued Rev. Rul. 2021-2 which declares these previous rulings obsolete in light of the law change.**

# Research Tax Credits and Basis Increase

- Allows PPP loan borrowers to enjoy benefits of tax deductions and associated tax benefits such as research tax credits and Section 199A deductions
- Bill clarifies that the amount of tax-free loan forgiveness (“tax-exempt income”) will result in basis increase for owners of pass-through entities for purposes of loss limitation rules & taxation of distributions

# Additional (\$284 Billion) Funding for PPP Loans

- New round of PPP loans available through March 31, 2021 for businesses in operation on February 15, 2020. Up to \$10 Million for First-time eligible borrowers with 500 or fewer employees. Businesses that previously received PPP loans qualify for a 2<sup>nd</sup> draw loan of up to \$2 Million, and they must:
  - Have 300 or fewer employees
  - Have used or will use full amount of their initial PPP loan
  - Must demonstrate that borrower has suffered a 25% gross revenue decline in any 2020 quarter, as compared to the same quarter in 2019
- This new round will be available to Section 501(c)(6) business leagues/associations, such as chambers of commerce, visitors' bureaus, and "certain destination marketing organizations"

# Modifications to PPP Loan Terms and Simplified Application Process

- Although the second PPP funding opportunity will still require at least 60% of loan proceeds to be used for eligible payroll costs, this round of loans **may also be used** for additional ordinary and necessary non-payroll costs, such as:
  - Worker protection equipment & facility modifications to comply with COVID safety guidelines
  - Computer software and accounting needs, including cloud-based services
  - Payments to essential suppliers to borrower's business operations
  - Group life, disability, dental and vision insurance
- New round of loans will retain the 8- or 24-week covered period

# Modifications to PPP Loan Terms and Simplified Application Process (continued)

- Borrowers may receive a PPP 2<sup>nd</sup> draw of 2.5 times average monthly payroll costs in the one year prior to loan or calendar year 2019
- Borrowers in hospitality or food services industries (NAICA Code 72) may receive 2<sup>nd</sup> draw up to 3.5 times average monthly payroll costs
- Borrowers requesting 2<sup>nd</sup> loan of \$150,000 or less may submit a certification attesting that the eligible entity meets the applicable revenue loss requirement, on or before they submit the loan forgiveness application (Sec 311)

# Modifications to PPP Loan Terms and Simplified Application Process (continued)

## Forgiveness:

- Safe harbor for new borrowers to restore wage & employment levels extended to end of covered period
- Borrowers with loans of \$150,000 or less will be eligible to submit a simplified, one-page certification used to certify the amount of loan proceeds used to cover payroll costs and number of employees that borrower was able to retain (Sec 307)
  - These borrowers may prefer to wait to apply for loan forgiveness using the simplified application which is to be available within 24 days from enactment into law
  - Employment record support must be retained for 4 years
  - Other support is to be retained for 3 years

# Polling Question #4

Will you be applying for PPP Loan Forgiveness?

- Yes
- No
- I already applied
- Unsure

# Loans & Modifications to Treatment of SBA Economic Injury Disaster Loans (“EIDLs”)

- Bill clarifies that EIDL loan proceeds forgiven (generally \$1,000 per employee advances, up to a maximum of \$10,000) and certain loan repayment assistance, qualifies for tax-free treatment
- Legislation repeals requirement that PPP loan borrowers must reduce their PPP loan forgiveness amount by the amount of EIDL advances
- Act clarified that expenses paid with these forgiven funds are deductible and tax basis & tax attributes are not reduced due to the exclusion from gross income



# Loans & Modifications to Treatment of SBA Economic Injury Disaster Loans (“EIDLs”)

- Deadline to apply for an EIDL up to \$2M is extended to December 31, 2021, pending availability of funds. \$20 billion for targeted EIDL advance grants (300 or fewer employees, low-income community, economic loss at least 30%)
- Terms include 3.75% interest rate (2.75% for non-profit organizations), up to 30-year maturity and 1 year deferment before monthly payments begin. Uses for working capital and normal operating expenses

# Extension of CARES Act Employee Retention Tax Credit

Bill extends Employee Retention Tax Credit for compensation paid through June 30, 2021. The following are effective January 1, 2021:

- Increase of credit rate from 50% to 70% of qualified wages (includes group health plan expenses)
- Increase of per employee cap from \$10K total to \$10K per calendar quarter
  - Maximum credit increased from \$5k in 2020 to \$14K for first two quarters of 2021
- Decline in gross receipts required reduced from 50% to 20%

# Extension of CARES Act Employee Retention Tax Credit

- Safe harbor to use prior-quarter gross receipts to determine eligibility.
- Large employer threshold increased from 100 to 500 employees
- Retroactive to March 13, 2020, employers receiving PPP may be eligible for ERTC

**However...**

# Extension of CARES Act Employee Retention Tax Credit

You **CANNOT** use the same wages for Employee Retention Tax Credits and forgiven PPP funds

- 2020 Employee Retention Credit Calculation:
  - Compute wages incurred as of March 12 through *start* of covered period. Apply 100% of these wages to ERTC
  - Compute wages incurred from the *end* of covered period through December 31, 2020. Apply 100% of these wages to ERTC
  - Add wages paid *during* covered period for employee in excess of \$46,153 (or \$15,385)
  - Once amount totals \$10,000, we stop for individual employee

# Polling Question #5

Do you plan to offer paid sick or paid family leave to your employees between now and March 31, 2021?

- Yes
- No
- Unsure

# Extension of Paid Leave Credits Under FFCRA and Repayment of Deferred Employee SS Taxes

COVID-Related Tax Relief Act of 2020 (CTRA) provides an extension of the tax credit for voluntarily paid sick or family leave through March 31, 2021

- 80 hours for PSL and 10 weeks PFL
- Bill also allows individuals to elect to use their average daily self-employment income from 2019 rather than 2020 to compute the credit.

CTRA extends the deadline from April 31, 2021 to December 31, 2021 for ratably withholding and repaying any deferred employee ee portion of Social Security tax withholding between September 1 and December 31, 2020. Penalty and interest will not begin accruing until January 1, 2022.

# Modification to Deduction Percentage for Business Meals and Other Tax Breaks/Credits

- Bill modifies deduction percentage for business meals, from 50%, to 100% (as long as expense is for food and beverages provided by a restaurant) after December 31, 2020 & through December 31, 2022.
- Act includes many additional tax breaks, extensions and modification, such as:
  - 2017 Excise tax breaks for brewers, winemakers and distillers are made permanent
  - New Markets Tax Credit and Work Opportunity Tax Credits are extended for five years
  - Extensions of other energy-related incentives are included in the bill, such as one-year extension of production tax credit for wind and other renewables & permanent extension of Sec. 179D for energy-efficient commercial buildings

# Other Provisions

- Significant aid to pandemic impacted industries
- Various provisions that are specifically targeted, such as to the smallest of businesses & for impacted communities
- Many other Provisions, including:
  - Earned Income Credit - permitted to base on year 2019 earned income
  - Education expenses for protective equipment allowed
  - Education tax breaks - Tuition-and-Fees Deduction is gone and instead, phaseout for Lifetime Learning Credit (LLC) increased to match Opportunity tax credit
  - Exclusion for certain employer payments of student loans for 5 years



# Polling Question #6

Do you plan on applying for a second PPP loan?

- Yes
- No
- I already applied
- Unsure

# Applying for a PPP Loan

If you would like to apply for a PPP loan (first or second), please contact your PM Advisor or our [Crisis Management Team](#)



# What's Next?

- Make sure you're **only** spending PPP loan funds on covered expenses, and **at least 60% on payroll costs**
- Determine the length of your covered period (**between 8 and 24 weeks**)

## **During Your Covered Period:**

- Monitor your wage and FTEE comparisons
- If you have FTEE or wage reductions, **restore them before the end** of the period.

# What's Next?

- Research if **EIDLs and EIDL grants** may be the right fit for your organization
- Now that the threshold has increased, consider taking the **employee retention tax credit**
- Determine whether you'd like to voluntarily offer **paid sick and/or paid family leave**

# Edward P. Rigby, CPA, MST

## Tax Partner

Edward Rigby is a Partner in the Tax Services Department of Prager Metis, a member of Prager Metis International Group. He has over 25 years of experience as a tax professional.

In his position as Tax Partner, Ed acts as a lead tax consultant and strategist to the firm's clients. His responsibilities include directing, motivating, and managing firm tax department personnel, directing the business relationships with clients, and leading the firm's business development initiatives.

Prior to joining the firm in January 2020, Ed held tax leadership positions with prominent New Jersey and New York accounting firms. He earned an impressive reputation among clients and fellow colleagues as being a highly successful negotiator and sophisticated tax strategist for leading companies and high wealth business executives. Ed also founded a successful corporate tax consulting firm which serviced privately owned companies in life sciences, manufacturing, and financial services industries. His past experience as a business owner helped him better understand and appreciate the necessity of having trusted business and financial advisors.

Edward has been recognized as being a trusted advisor to business executives in the pharmaceutical, manufacturing, financial services, real estate development, global art and fashion industries. His areas of expertise include providing advice on mergers and acquisitions, international tax structuring and tax benefits for business investment, and research and development. He has also successfully negotiated financially impactful tax rulings with IRS and State taxing authorities. Ed's clients not only benefit from tax savings resulting from sophisticated tax planning but are also able to avoid problems associated with non-compliance with the ever-increasing complexity of federal tax law and regulations.

Ed has authored numerous articles on behalf of the New Jersey Society of CPAs covering topics such as Opportunity Zone tax benefits, Section 199A deductions, and interest expense limitation rules. He has served as guest speaker at Monmouth University's Real Estate Graduate program and presented tax-related education and training to law firms, bankers, and internal professional staff.



### AREAS OF EXPERTISE

Tax Services  
PPP Loan Forgiveness  
Crisis Management

### SPECIALTY

Mergers & Acquisitions  
Research Tax Incentives  
Corporate Tax Strategies  
Tax for Business  
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### EDUCATION

MS in Taxation  
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# Robbin E. Caruso, CPA, CGMA

## Partner

Robbin E. Caruso is a Partner in the Tax Department and the co-leader of the National Tax Controversy group of Prager Metis, a member of Prager Metis International Group. Robbin has been practicing in the accounting industry for over 25 years.

Robbin specializes in complex tax work and is integrally involved with individual, fiduciary, and business tax planning and compliance. She leads the resolution of client federal and state tax controversy matters through installment agreements, offers in compromise and tax audits. She also oversees accounting and financial planning matters for her high-net-worth clients.

Robbin's passion for her work shows through her dedication to both clients and staff. She makes herself available when needed and has developed close relationships with her clients over the years. This has enabled her to provide more effective, efficient, and personalized guidance and to obtain optimal results for her clients. Robbin was acknowledged by her peers when she received the company's 2020 Client Services award. She is also a contributor to the firm's newsletters and is frequently interviewed for/quoted in tax articles and industry publications. Robbin is a regular speaker at continuing professional education seminars conducted for the benefit of her peers and for various professional organizations and provides training to staff and clients.

Robbin is the current Chair of the AAA-CPA IRS Liaison Committee, representing the organization at National Public Liaison Practitioner meetings. She has served on various boards and finance committees over the years, including: the board of trustees and as chairperson of the finance committee at Pine Brook Jewish Center for over 4 years and the finance committee of Canyon Creek Condominium Association. She was also an adjunct professor at Kean University from 1993 through 2001. Courses she taught include principles, intermediate and advanced accounting, auditing, personal finance, and computer accounting systems and procedures.

When she is not assisting her clients, Robbin is active with a number of non-profit organizations. Prior to joining Prager Metis, Robbin was a Managing Partner at E. Martin Davidoff & Associates, which combined with Prager Metis in November of 2018.



### AREAS OF EXPERTISE

Tax Controversy  
Tax Services

### SPECIALTY

IRS and State Controversy Resolution  
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BS Summa Cum Laude, Accounting,  
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# Robert O. Mayer, CPA

## Partner

Robert O. Mayer is a Partner of Prager Metis, a member of Prager Metis International Group. He also serves as Co-Lead of the CFO Advisory Services and is an integral member of our PPP Loan Forgiveness and Crisis Management teams. Mr. Mayer has over forty years of experience in the accounting profession.

Mr. Mayer's entrepreneurial spirit and innovative growth strategies are among the many assets that he provides to his clients. In 1973, Mr. Mayer started his accounting career at a then big 8 accounting firm before joining an accounting firm as its second staff person and helped the firm grow to 40 employees within five years. Mr. Mayer spent five years as a staff member at Prager and Fenton. Mr. Mayer went on to be the chief financial officer for a Long Island company; he helped that company expand from one location to five and increase sales from \$12 million to \$60 million over five years.

Mr. Mayer has been included in Long Island Business News' "Who's Who in Accounting" and was recognized by the publication in 2010 as among Long Island's highest achieving "50 Around 50."

Prior to joining Prager Metis, Mr. Mayer was the managing partner of Mayer CPAs LLP, who joined Prager Metis in 2016.



### AREAS OF EXPERTISE

CFO Advisory  
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