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January 13, 2021

Dear Friends and Family of Gomes DaCruz & Tracy, PC,

While we sent a letter to all clients on updates to general tax laws, we wanted to focus this communication on the employer Paycheck Protection Program (PPP) and the Employee Retention Tax Credit. On December 27, 2020, President Trump signed the Consolidated Appropriations Act. This act confirmed provisions under the original PPP loan rules and established a PPP second draw loan of up to \$2 million.

Original PPP Loans

- Loan forgiveness is not taxable and expenses paid with funds are deductible.
- Economic Injury Disaster Loan (EIDL) grants and loan repayment assistance for certain recipients of CARES Act loans are not taxable income and do not get subtracted from the PPP loan forgiveness calculation.
- Expanded qualified non-payroll costs include operations expenditures, property damage costs, supplier costs, and worker protection expenditures.

Second Draw PPP Loans

- Qualified employers must employ no more than 300 employees, used or will use the full first PPP loan, and demonstrate a 25% reduction in gross receipts for any 2020 quarter over the same quarter in 2019.
- Borrowers may receive up to 2.5 times the average monthly payroll costs in 2019 or 2020. Borrowers in the hospitality and food service industries (NAICS code 72) may receive 3.5 times the average monthly payroll costs.
- Taxpayers who borrow \$150,000 or less may submit certification attesting that the eligible entity meets the applicable gross receipts loss requirements with limited documentation requirements.
- Second draw loans are 100% forgivable if it is used for payroll costs of up to 60% and non-payroll costs (i.e., rent, mortgage interest and utilities) of 40%.
- Second draw loan forgiveness is not taxable and expenses paid with funds are deductible.

Employee Retention Tax Credit (ERTC) Expansion and Extension

- The CARES Act provided a refundable tax credits for 50% of qualified wages up to \$10,000 per employee, for a maximum credit of \$5,000 per employee in 2020.
- The provisions were extended from January 1, 2021 through June 30, 2021 and increase the credit to 70% of qualified wages up to \$10,000 per quarter, for a maximum credit of \$7,000 per employee, per quarter.
- Eligibility was expanded by reducing the required year-over-year gross receipts decline from 50% to 20%.
- Originally, employers could not take the PPP loan and ERTC. A retroactive change allows for both but does not allow you to claim the ERTC on wages reimbursed under the PPP loan.

Second draw PPP applications are being accepted at limited banking institutions starting January 11, 2021 and phase into larger banking institutions in the following weeks. The application deadline is March 31, 2021.

If you have any questions about the above information, please reach out to your contact at our firm or make mention of such items when bringing in your tax information.

Thank you for your commitment and support and we wish all of you the very best in 2021.



Helpful links:

First Draw Summary

First Draw Application Form

Second Draw Summary

Second Draw Application Form