# New PPP Loans: A Second Boost for Small Business

By Jeffrey N. Berman, CPA, and Scott E. Murray, CPA

The Paycheck Protection Program (PPP) is back. With the welcome passage of pandemic relief legislation late last month, Congress has injected $284 billion into this popular resource for small businesses struggling to survive the Covid-19 pandemic. The money will soon be dispersed throughout the country in the form of forgivable PPP loans.

A second round of PPP loans will be made available to first-time qualified borrowers and to those who previously received such loans in 2020. This latter group will be eligible for loans of $2 million or less as long as they:

- Have fewer than 300 employees;
- Can demonstrate at least a 25 percent decline in gross receipts in one quarter of 2020 compared to the same 2019 quarter; and
- Have used or will use the entirety of their previous PPP loan.

Additionally, all borrowers in the program must attest that the new PPP loan draw is necessary for the continued operation of the business or organization. The law does not clearly define what "necessary" means, quantitatively speaking; nor does the law require any demonstration of necessity. Still, in theory, the SBA could audit borrowers in the future to establish that the attestation was truthful. So prospective borrowers will want to assess their overall financial position before applying for a new PPP loan.

Take, for example, a dental office forced to shut down in April and May. Its second-quarter revenue in 2020 compared to 2019 shows a drastic drop in revenue of 70 percent. The business made up some lost ground in the third and fourth quarters, but overall, 2020 was still a down year, and, with more uncertainty on the way, retaining employees has become a challenge. A business in this situation would be a good candidate for new PPP loan.

**Loan Terms and Forgiveness**

As with the first round of PPP funding, the size of the loans will depend on the borrower's payroll. For most businesses, the new PPP loans cannot exceed 2.5 times the borrowers' average monthly payroll costs in the prior year. An exception to this rule applies to the hospitality and food services industries, which have been especially hard hit by the pandemic. Businesses in these sectors may receive loans amounting to 3.5 times average monthly payroll costs.

At least sixty percent of the new PPP loans must be used to cover payroll costs over a period of up to 24 weeks. The other forty percent of the loan can cover an expanded list of qualifying expenses. These include rent, mortgage interest, utilities, supplier costs, costs incurred to protect workers from the pandemic, and other operating expenses such as software and accounting. When the loans are used for such expenses, they are entirely forgivable.

Fortunately, the new law establishes a much more simplified loan forgiveness process for PPP loans under $150,000. Now the borrow must simply submit a one-page certification. This document should specify the number of employees the borrower was able to retain thanks to the loan, the amount of the loan spent on payroll, and the total loan amount.

**Tax Deductibility**

Previously, the Internal Revenue Service has deemed expenses covered by PPP loans *not* deductible. The new law reverses this position, insisting that expenses paid both from the original and second round of the PPP will indeed be considered deductible for borrowers. This means that the dental office referenced above could claim a deduction for wages paid to its employees and for any other expenses covered by its first and second PPP loans.

**Employee Retention Credit**

The new law also makes clear that PPP borrowers may take advantage of the Employee Retention Tax Credit created by the CARES Act. Specifically, the law now allows businesses to claim a credit for 70 percent of wages paid up to $10,000 per employee per quarter, through July 1, 2021. Like the new policy on tax deductibility, this provision could offer many businesses a substantial tax savings.

**EIDL Advance Grant Program**

One additional benefit the law provides involves the Economic Injury Disaster Loan (EIDL) advance grant program. Pursuant to the CARES Act, the SBA began offering these grants as an emergency lifeline to struggling businesses. Previously, PPP borrowers who also availed themselves of the EIDL advance grant program had to deduct the grant amount from the PPP forgiveness amount. The new law repeals this requirement.

These and other welcome provisions in the pandemic-relief legislation stand to provide much-needed funding streams for small businesses in the early months of 2021. As the coronavirus pandemic rages on, we are indeed facing a dark winter, but the rejuvenated PPP program offers hope when we most need it.

*Jeffrey N. Berman CPA/CFA/PFS, is Managing Partner at KBST&M, a full-service accounting firm and financial advisor in Timonium, Maryland. Scott E. Murray, CPA/MBA, is a Tax Manager at the firm.*