



Employee Retention Credit & Paycheck Protection Program Highlights

The Consolidated Appropriations Act, 2021 (CAA), signed into law earlier this year, is a \$2.3 trillion spending bill that combines a nearly \$900 billion coronavirus aid package with a \$1.4 trillion spending bill to fund the federal government in 2021.

The emergency coronavirus relief package aims to bolster the economy and offers additional measures aimed at providing much-needed assistance to businesses and organizations across the U.S. Below are top considerations from the 5,500-plus page legislation.



Employee Retention Tax Credit (ERC)

What is the employee retention credit?

Enacted under the CARES Act in 2020, the ERC initially provided a 50% refundable, and easily monetized tax credit, for companies that continued to pay their employees while being closed due to government lockdown or suffered significant declines in gross receipts due to loss of business during the COVID-19 pandemic.

Why is it getting so much attention now?

The CAA provided **new enhancements to the credit**, increasing the eligibility requirements for companies to receive it retroactively. While the gross receipt reduction requirement is still 50% for quarters in 2020, the bar is lowered to 20% for Q1 and Q2 of 2021.

Additional enhancements and the most notable changes include:

- Retroactively extending the 2020 credit to those who received a PPP loan – previously this group did not qualify for the 2020 credit (The credit is applicable to payroll and healthcare costs not included in the PPP forgiveness.)
- Extension in availability of the credit to the first two quarters of 2021.
- Increase of the credit to 70% of up to \$10,000 of qualified wages per employee per quarter, inclusive of healthcare costs in 2021.

Do you retroactively qualify for the 2020 ERC?

Answer a few quick questions to determine if you qualify and how best to approach your situation.



Paycheck Protection Program (PPP)

The CAA provided an additional \$284 billion to fund the Paycheck Protection Program. The legislation also offered a highly anticipated clarification that PPP Round 1 forgiveness is NOT taxable and those expenses used in the forgiveness calculation are deductible.

In addition, the legislation offered new insights and eligibility requirements for groups previously unable to receive the loans and provided new allowances for how the forgivable funding can be utilized.

Loan Details

- The maximum loan amount is \$2 million for all entities.
- Generally, the loan amount is 2.5 x the borrower's 2019 or 2020 average monthly payroll costs (the borrower has flexibility to choose).
- For NAICS 72 entities (accommodation and food services), the loan may be up to 3.5 x the average monthly payroll costs of 2019 or 2020.

The application deadline is March 31, 2021, or until funds are exhausted.

What's Forgivable?

The CAA provided additional flexibility for expenses previously not covered by forgivable funds. To be eligible for full loan forgiveness, PPP borrowers must spend no less than 60% of the funds on payroll over a covered period between eight or 24 weeks.

The following expenses are considered forgivable:

Original Expenses

- Payroll (limit of \$48,154 per employee and \$20,833 per owner-employer).
- Health Benefits.
- Mortgage Interest.
- Rent.
- Utilities.
- Interest on certain debt.

Additional Expenses

- Covered worker protection and facility modification expenditures.
- Expenditures to suppliers that are essential at the time of purchase to the recipient's current operations.

- Covered property damage costs related to property damage and vandalism or looting due to public disturbances in 2020 that were NOT covered by insurance or other compensation.
- Covered operating expenditures, which refer to payments for any business software or cloud computing service that facilitates business operations; product or service delivery; the processing, payment, or tracking of payroll expenses; human resources; sales and billing functions; or accounting or tracking of supplies, inventory, records, and expenses.



PPP First Time Borrowers

Eligibility Requirements

The Economic Aid Act makes first-draw PPP loans available to borrowers that were in operation on Feb. 15, 2020, and fit into one of the following groups:

- Businesses with 500 or fewer employees that are eligible for other SBA 7(a) loans.
- Sole proprietors, independent contractors, and eligible self-employed individuals.
- Not-for-profits, including churches.
- 501(c)(6) organizations (other than professional sports leagues or certain organizations involved in lobbying or participating in political campaigns) (300 EEs or less).
- Accommodation and food services operations (those with North American Industry Classification System (NAICS) codes starting with 72) with fewer than 500 employees per physical location.
- News Organizations with NAICS code 511110 or 5151 (500 eligible employees (EE) or less per location).
- Housing Cooperatives and Destination Marketing Organizations (300 EEs or less).

Companies who took advantage of the Employee Retention Credit may now qualify for PPP funding.



PPP Second Draw Highlights

The CAA also created a second loan from the PPP called a "PPP second draw loan" up to a maximum of \$2 million, for smaller and harder-hit businesses. Businesses applying for this loan must certify the need for funding and have faced significant revenue declines in any 2020 quarter compared to the same quarter in 2019.

Eligibility Requirements

- 300 or fewer employees.
- Used or will use the full amount of their first PPP loan on or before the expected date for the second PPP loan to be disbursed to the borrower.
- Must have spent the full amount of the first PPP loan on eligible expenses.
- Experienced a revenue reduction of 25% or more in all or a calendar quarter of 2020 compared with all or the corresponding calendar quarter of 2019.

The details contained here is information and guidance as of January 15, 2021. Please consult your advisor for individual consideration and visit manercpa.com/COVID for updates.

Sources:

"New PPP Guidance Issues by SBA, Treasury," *Journal of Accountancy*, Jan. 7, 2021.
"PPP Loan Changes," *BDO*, January 12, 2021.