



USA Stimulus 2.0

Key tax provisions

On 27 December 2020, then President of the United States of America (USA) Donald Trump signed USD 900 billion economic stimulus package named the Consolidated Appropriation Act (CAA). The CAA has various provisions to provide economic support to individuals and businesses through a combination

of tax benefits, grants and loans. It also includes several significant changes to federal tax laws that are unrelated to the COVID-19 pandemic. We have summarised some of the federal tax provisions and Paycheck Protection Program (PPP) loan provisions of the CAA.



Key provisions

- There has been a second tranche of PPP loan declared under the CAA. However, there have been significant changes in the current one.
- Eligible borrowers include:
 - Employers with less than 300 employees and
 - Employers who had gross receipts in a quarter during 2020 that represents a 25% reduction from gross receipts of the entity during the corresponding quarter in 2019.
- Maximum loan amount reduced to USD 2 million, which was USD 10 million under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- An entity that returned all or part of a prior PPP loan has an opportunity to reapply.
- In addition to eligible expenses for PPP loan forgiveness under the CARES Act, the following four non-payroll expenses have been added to the list of PPP loan forgiveness eligible expenses under the CAA:
 - **Covered operations expenditures:** include payment for any business software or cloud computing service that facilitates business operations, product or service delivery; processing, payment, or tracking of payroll expenses; human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records and expenses.
 - **Covered property damage costs:** include costs related to property damage and vandalism or looting due to public disturbances that arose during 2020, which were not covered by insurance or other compensation.
 - **Covered supplier costs:** include expenses incurred by a borrower under a contract or order in effect before the date the PPP loan proceeds were disbursed for the supply of goods that are essential to the borrower's business operations.
 - **Covered worker protection expenditure:** include costs of personal protective equipment incurred by a borrower to comply with rules or guidance issued by the Department of Health and Human Services, the Occupational Safety and Health Administration or the Centers for Disease Control, or a state or local government.
- An earlier provision for using 60% of the PPP loan proceeds against payroll expenses remains unchanged.
- A new simplified forgiveness procedure for loans of USD 150,000 or less has been provided. The Small Business Administration (SBA) will develop the loan application.
- The CAA further modifies the CARES Act and overrides the Internal Revenue Service (IRS) determination by providing that businesses can deduct expenses funded with PPP loan proceeds. This means the CAA allows taxpayers to deduct business expenses regardless of whether the expense was paid using forgiven PPP loan proceeds. The PPP loan and the loan forgiveness will remain excluded from income.



Employee Retention Credit (ERC)

The CARES Act created the ERC under which an eligible employer could take a credit equal to 50% of the first USD 10,000 of qualified wages paid by it during 2020, leading to a maximum credit of USD 5,000 per employee. Eligible employers were those whose operations were suspended due to a COVID-19-related governmental order or whose gross receipts for any 2020 calendar quarter were less than 50% of its gross receipts for the same quarter in 2019. Eligible employers that employed more than 100 employees were able to claim credit only on qualified wages paid to employees who did not provide services. Also, employers that received PPP loans were ineligible to claim the ERC.

The CAA has changed ERC-related provisions as per the following:

- As per the CARES Act, ERC was set to expire on 31 December 2020. This has now been extended to 30 June 2021 under the CAA.
- The credit limit of 50% and USD 10,000 for the year has been increased to 70% and USD 10,000 per quarter. Thus, eligible employers can take a maximum credit of USD 14,000 until 30 June 2021.
- The gross receipts threshold for eligible employer has been reduced to 20% from the erstwhile 50% under the CARES Act.
- The qualified wages threshold of 100 employee has been increased to 500 or fewer employees.
- Businesses that receive PPP loan will be eligible for ERC to the extent such wages have not been paid from the proceeds of forgiven PPP loan. Treasury and the SBA will issue detailed guidance in this regard.

How we can help

Grant Thornton Bharat's US Tax team can help companies analyse the most beneficial incentive available for their US entities under stimulus package to meet their liquidity challenges during these uncertain times.

For further details, please contact:

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Other provisions

The following provisions have also been provided under the CAA:

- New stimulus checks of USD 600 per individual taxpayer and qualifying child.
- Existing business meals deductibility rule is 100% deductible provided business food and beverages are provided by a restaurant. The rule is applicable for 2021 and 2022.
- Extension of the sick pay and paid family leave credits enacted by the Families First Coronavirus Relief Act (FFCRA) through 31 March 2021. This credit was set to expire on 31 December 2020.
- The income threshold for unreimbursed medical expense deductions has been permanently reduced from 10% to 7.5% so that more expenses may be deducted.
- For corporate taxpayer for the tax year 2021, charitable deduction limit has been increased from 10% to 25% of taxable income.
- Individual taxpayers who do not itemise deductions may deduct cash donations up to USD 300 (USD 600 for married filing joint) made during 2021 to qualified organisations.

Further changes may be expected in the future under the new administration, headed by Joe Biden (President), which has proposed a USD 1.9 trillion relief plan known as the American Rescue Plan.

