

\$900 Billion Stimulus Package Provides Critical Tax Guidance and Support for Employers

On December 27, 2020, President Trump signed into law the \$900 billion stimulus package passed by Congress on December 21. This package contained some much needed tax guidance and support for many employers across the country. Here are some of the most salient provisions related to PPP loans, payroll taxes, and business meal deductions:

PPP Loans:

The new law authorizes a second round of Paycheck Protection Program (PPP) loans (which we'll cover in a separate update), and it provides much needed clarity on the tax effect of PPP loan forgiveness. Contrary to some of the late rumors coming from Capitol Hill, these tax provisions apply to borrowers notwithstanding whether forgiveness has already been granted, and apply to both original PPP loans and the newly authorized second-draw PPP loans.

In short, the law provides that no deduction or basis increase shall be denied as a result of PPP loan forgiveness. Taxpayers who receive forgiveness therefore **will** be allowed a deduction for the expenses paid with PPP loan proceeds – including wages, rent, utilities, and mortgage interest. Allowing these expenses to be deducted has been a hotly contested issue, with the IRS earlier releasing guidance stating that these expenses would not be deductible. Congress has effectively superseded the IRS' position and provided a well-received benefit to those borrowers who receive PPP loan forgiveness.

For purposes of partnerships and S corporations, partners or shareholders, whichever the case may be, are entitled to a ratable increase in basis, equal to their share of deductions as a result of loan forgiveness. This will prevent a partner or shareholder from recognizing a gain, upon the sale or redemption of such owner's interest, from PPP loan forgiveness.

Payroll Taxes:

Employers who decided to defer withholding and paying the employer's 6.2% share of the Social Security tax during the pay periods between September 1, 2020, and December 31, 2020, now have an extended timeline to withhold and remit these taxes. These taxes originally had to be remitted ratably between January 1, 2021, and April 30, 2021 – before penalties began to accrue on May 1, 2021. The revised time to remit the deferred taxes is now January 1, 2021, through December 30, 2021 – before penalties begin to accrue on January 1, 2022. This will serve to lessen the burden on the employees who are subject to the increased withholding while the employer is playing catch-up, giving the employer an additional eight-month period to withhold the taxes.

Business Meal Deduction:

Beginning on January 1, 2021, food or beverages provided by a restaurant and paid or incurred before January 1, 2023, will be entitled to a full business tax deduction. While this is most likely designed to provide increased revenue to restaurants, employers will receive an always appreciated tax benefit.

If you have questions related to tax relief or implications from the new COVID-19 stimulus package, please contact [Nick Nester](#), Rachel Ragghianti, CPA, or another member of our [Tax](#) team.

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