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'Thousands in tax savings' provisions for businesses in new COVID stimulus bill

By Jamie Herzlich
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At year-end, a 5,593-page bill containing COVID-relief legislation was signed into law that included notable tax provisions for businesses, many of which were either extended or made permanent.

Among the more noteworthy tax-related measures in the Consolidated Appropriations Act was a provision allowing businesses to deduct expenses paid from the proceeds of forgiven Paycheck Protection Program (PPP) loans, reversing a previous IRS position. Others included extensions of the Employee Retention Tax Credit and paid sick leave and paid family leave tax credits, along with making permanent the Energy-Efficient Commercial Buildings Tax Deduction.

"The biggest break in the new law is allowing businesses that received PPP loan forgiveness or EIDL grants up to $10,000 to deduct expenses covered by these financing options," says Barbara Weltman, a Vero Beach, Florida-based small business tax specialist and author of "J.K. Lasser’s Small Business Taxes 2021." She says, "Previously, the IRS had said these expenses weren’t deductible."

What’s more, now covered expenses include not only compensation (such as health coverage), rent or mortgage interest, and utilities, but also personal protective equipment and other items required to comply with federal health-safety guidelines, and software, cloud computing services and accounting needs, she says.

"It’s a relief of a huge tax burden," says Ed McWilliams, a partner at CPA firm Cerini & Associates LLP in Bohemia. "That could add up to tens of thousands in tax savings for businesses."

Michael Ceschini, managing member of Ceschini CPAs in Miller Place, says generally speaking a client with a $500,000 PPP loan in a 30% tax bracket (combined state and federal) could see a potential $150,000 in tax savings on their 2020 returns or carry it forward to reduce their 2021 tax burden.

Another provision allows companies that took a PPP loan to also be eligible to claim the Employee Retention Tax Credit, Weltman says. Prior to this law change, if you took a PPP loan you couldn’t take this credit.

The credit, which has been extended to June 30 and is intended to encourage employers to keep employees on their payroll, is now 70% (instead of 50%) of qualified wages per employee up to $10,000 per quarter (instead of per year), she says.

For 2020, companies eligible for the credit would be those with operations that were either fully or partially suspended by a COVID-19 lockdown order; or, if gross receipts for any quarter in 2020 were less than 50% for the same quarter in 2019, Weltman says.

Effective Jan. 1, 2021, businesses similarly impacted by a lockdown order, or for a quarter in 2021, see a 20% decline in gross receipts vs. the same quarter in 2019 could be eligible for the credit, McWilliams says.


Robert Spielman, a tax partner at Marcum LLP, says paid sick leave and paid family leave tax credits also have been extended. Credit: Marcum LLP

This credit could help offset either a business' 2020 or 2021 payroll portion of their taxes depending on eligibility, he says.

Also notable is that the paid sick leave and paid family leave tax credits have been extended, says Robert Spielman, a tax partner in the Melville office of Marcum LLP.

Although employers aren't required to provide these benefits after Dec. 31, 2020, those that voluntarily do so can still be eligible for the credit through March 31, Spielman says. See nwsdy.li/taxcredits.

Further, the New Markets Tax Credit has been extended to 2025, assisting companies looking to move or expand their business into low-income, distressed communities, Spielman says. The relief bill provides an annual $5-billion in credits with a carry-over of unused credits through 2030, he says.

Beyond that, there's been a bump in the deductibility of business meals in 2021 and 2022 to 100% from the previous 50%, Ceschini says. It's limited to "food or beverages provided by a restaurant," he says.

"Not only does it help the business owner, but if the business owner knows it’s 100% vs. 50% maybe they’d be more likely to patronize restaurants even with limited capacity," Ceschini says.

Among other provisions, the Work Opportunity Tax Credit for hiring certain groups who have faced barriers to employment such as long-term unemployment recipients was extended through 2025 and the Energy-Efficient Commercial Buildings Tax Deduction was made permanent, Weltman says.

"What was interesting was the buckshot approach they took to extenders...meaning some provisions were extended for part of 2021, some a year, some two years or five years and some made permanent," she says, adding that's helpful because many had been previously subject to one-year extensions, which doesn't help with tax planning.