



S Corporation Association Update

January 5, 2021

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Covid Relief Bill Includes PPP Deductibility

After months of negotiations, and a tumultuous, five-day stretch that left its fate in limbo, President Trump signed a 5,600-page, \$2.2 trillion joint-COVID-19 relief and appropriations [bill](#) into law.

Importantly for S-Corp members, the bill explicitly ensures the full deductibility of business expenses paid for with forgiven PPP loans. Securing that provision had been a key priority for the S Corporation Association, which in early December joined with over 700 business groups in a [letter calling on Congress](#) to prevent a surprise tax increase on small businesses. That letter read, in part:

Many PPP loan recipients retained employees on their payrolls, even when there was little to no work to perform, in compliance with the intent of the program to keep people employed and off the unemployment rolls. The IRS changed the rules after businesses took out PPP loans, and business owners are now being asked to pay what amounts to a surtax on their workforce. Without Congressional action, businesses will face an unexpected tax bill when they file their taxes for 2020, as they continue to struggle with government mandated shutdowns or slowdowns. Many of those businesses will close and never re-open. This senseless tax policy stands both the letter and spirit of the PPP on its head.

PMSE Endorses COVID-19 Relief Bill

After months of intense advocacy, the Main Street Employers coalition was able to fully endorse the most recent COVID-19 package just in time for Christmas. In a statement released to the press, PMSE Executive Director Chris Smith made the following comments:

We support the COVID-19 stimulus relief bill and urge its immediate enactment. This plan improves and extends the successful Paycheck Protection Program while ensuring that expenses related to forgiven PPP loans are fully deductible, as Congress intended. The legislation will help employers keep workers on the payroll and their doors open through a difficult winter. It provides a much-needed bridge to help spur a robust recovery as the vaccine becomes more widely available.

The relief bill includes an extension of Paycheck Protection Program loans of up to \$2 million for businesses with under 300 employees who have experienced a 25% revenue loss, with expanded help

for the hospitality industry and supplier costs. The bill also specifies that forgiven loans will not be included in taxable income and that expenses paid with proceeds of the forgiven amounts remain deductible, effective for both the CARES Act and any subsequent PPP loans. Both of these items were longstanding priorities of the PMSE coalition.

S-CORP in the News

PPP Tax Treatment: The deductibility of business expenses paid for with forgivable PPP loan funds is now the law of the land, but that outcome didn't happen without a fight. In a POLITICO Pro piece entitled [Business Groups Fight Potential PPP Deductibility Limits](#), Bernie Becker sheds light on the battle, as well as a late push by top lawmakers and administration officials to limit the deduction:

"I thought that would be resolved easily in favor of deductibility. I've been told that there is a challenge. But I'm surprised about that," Sen. Ben Cardin of Maryland, the top Democrat on the Small Business Committee and a senior tax writer, told reporters on the Hill.

All of that has left business advocates thinking that Treasury remains the biggest obstacle on the matter.

"My understanding is that Mnuchin continues his one-man effort to raise taxes on Main Street employers," said Brian Reardon of the S Corporation Association.

WSJ on SALT Parity: S Corporation Association President Brian Reardon was quoted in a Wall Street Journal [piece that outlined](#) the Treasury Department's action on state and local workarounds. Authored by Richard Rubin, it reads:

Brian Reardon, president of the S Corporation Association, has been urging states to adopt these entity-level taxes and said the Treasury decision puts them on solid legal footing.

"There's really no reason for states not to adopt this," he said. "They can help their employers reduce their taxes without costing the states a penny. It's a win-win."

Tom Nichols in Tax Notes: Tom Nichols was [published](#) in Tax Notes recently defending our SALT Parity efforts. He writes:

We agree with Monte A. Jackel that Notice 2020-75, 2020-49 IRB 1 (acknowledging the full deductibility of taxes paid at the entity level), is a good decision in that it "is economically stimulative at a time that is needed." However, as summarized below and as described in detail in the memorandum linked in the Tax Notes news story reporting on the notice, the questions that Jackel raises regarding the authority supporting it have already been addressed and resolved in favor of its issuance...

These implications and other considerations are good reasons why Treasury and the IRS believed it appropriate to confirm the proper scope of the statute. In short, the notice is not "clearly incorrect as a matter of law." Quite the contrary.

Read the full response [here](#).

Social Media Update

Below are a few selected communications published by our allies at the Main Street Employer coalition. They can be found on Twitter under the username [@MainStEmployers](https://twitter.com/MainStEmployers):



Parity for Main Street Employers @MainStEmployers · Dec 21, 2020

"We support the COVID-19 stimulus relief bill & urge its immediate enactment...This plan improves and extends the successful Paycheck Protection Program while ensuring that expenses related to forgiven PPP loans are fully deductible, as Congress intended."



[Show this thread](#)



Parity for Main Street Employers @MainStEmployers · Dec 21, 2020

Today the Parity for Main Street Employers Coalition of national groups representing millions of individually- and family-owned businesses announced its support for the final \$900 billion bipartisan COVID-19 relief plan.



[Show this thread](#)



Parity for Main Street Employers @MainStEmployers · Dec 19, 2020

#SmallBiz are suffering a 2nd wave of economic pain. Many brought back workers after receiving #PPPLoans, but have exhausted those funds and aren't sure when or whether new aid will arrive. Worse yet, Congress may tax it too. via @RSimon18



For Small Firms, Covid-19 Cuts Deeper; 'It's Getting Worse Every Day'
Performing-arts companies, travel agencies and bowling alleys are among the biggest losers, according to government data.

[wsj.com](https://www.wsj.com)



Parity for Main Street Employers @MainStEmployers · Dec 18, 2020

PPP's Ticking Tax Time-bomb. Congress intended PPP to be tax free-- allowing biz that spent the \$ on payroll, rent to then deduct them. Now IRS wants to prevent those expenses from being deducted, creating a new tax on #smallbiz at the worst possible time.



The PPP's Ticking Time-bomb Tax Crisis | The Well News | Pragmatic, Go...
The PPP's Ticking Time-bomb Tax Crisis Opinions | The Well News |
Pragmatic, Governance, Fiscally Responsible, News & Analysis
thewellnews.com



Parity for Main Street Employers @MainStEmployers · Dec 15, 2020

Dire survey results show #smallbusinesses urgently need help:
-1 in 4 see having to close doors in next 6 months
-22% able to operate no longer than 7-12 months
-1/2 see need for additional financial support over the next 12 months. via
[@NFIB](https://www.nfib.com)



One-In-Four Small Business Owners Will Close Doors ...
WASHINGTON, D.C. (Dec. 15, 2020) – The NFIB
Research Center released its latest survey focusing on...
[nfib.com](https://www.nfib.com)



Parity for Main Street Employers
@MainStEmployers

National Defense bill would create a massive centralized gov't database w/ details on every Mom & Pop #smallbiz in America @USTreasury Dept...which already suffered a massive Russian hack. An unnecessary & unsafe mistake. #Veto via @axios
[axios.com/newsletters/ax...](https://www.axios.com/newsletters/ax...) #axiossneakpeek

11:35 PM · Dec 16, 2020 · Twitter for iPhone