GROWERTALKS

Features

4/1/2021

The American Rescue Plan of 2021

Mark E. Battersby

The American Rescue Plan (ARP), the $1.9 trillion pandemic relief bill, is now a reality. Included in the new bill are the much-publicized provisions that will send $1,400 payments to individuals earning up to $75,000 and couples earning up to $150,000 based on either 2019 or 2020 tax returns.

Those payments phase out fully for those making $80,000 for individuals and $160,000 for couples—well above the median household income of $68,703 in 2019, according to the U.S. Census Bureau.

The new bill's provision on unemployment insurance contains a $300 weekly boost in benefits into September with the first $10,200 as tax-free unemployment payments for workers in households earning up to $150,000 a year. Best of all, the new bill continues to extend benefits for the self-employed and "gig" workers, along with those who've exhausted their regular jobless benefits.

In addition to the self-employed, greenhouse growers and garden centers will reap their share of benefits under the new legislation. After all, small businesses sustain half of the private sector jobs in America, but have struggled in the wake of COVID-19. Nationally, small business revenue is down 32% and over 400,000 businesses have permanently closed.

To help hard-hit businesses survive the pandemic and fully recover, lawmakers included a number of benefits aimed at small businesses, including more much-needed funding.

Funding, we've got funds

The ARP allocates $350 billion for new Coronavirus Relief Funds for states, localities, the U.S. Territories and Tribal Governments to help keep critical workers on the job. Although the bill provided no information about how a grower or garden center owner can tap these funds, another non-federal funding program appears more accessible.

A whopping $10 billion has been allocated to help states assist their small businesses. The State Small Business Credit Initiative—with $2.5 billion set aside for businesses owned and controlled by socially and economically disadvantaged individuals, including minority-owned businesses—will enable state governments to make low-interest loans and other investments to help their small business economies recover.

Under the ARP, another small business financing program has been created to leverage $35 billion in government funds into $175 billion in additional small business lending and investment. The funds will be invested in successful state, local, tribal and non-profit small business financing programs.

The goal is to provide low interest loans and venture capital to help entrepreneurs—including those in the clean energy sector—innovate, create and maintain jobs, and provide the essential goods and services that communities depend on.

The PPP business rescue

The Paycheck Protection Program (PPP) was created to help borrowers meet their payroll and operating costs with the potential of being forgiven. Already taking applications for second-round loans, the PPP is getting an additional $7.25 billion.

Under current PPP rules, most businesses must employ 500 workers or fewer in order to be eligible, regardless of how many locations they operate. The ARP shifts this policy for not-for-profit organizations and allows larger not-for-profit organizations to receive a PPP loan if they have 500 workers or fewer in each physical location they operate.

As with the earlier versions of the PPP, loans will be fully forgiven if at least 60% of the money is used to support payroll expenses with the remainder going to mortgage interest, rent, utilities, personal protective equipment or certain other business expenses. Loan payments will be deferred for six months and no collateral or personal guarantees are required, nor will either the government or lenders charge small businesses any fees.

Businesses and non-profit organizations that receive PPP loans may have the loan forgiven if they meet certain criteria, including not laying off employees during an eight-week period covered by the loan. If they're not forgiven, the loans have a maturity of two years and carry an interest rate of 1%.

Although a forgiven PPP loan isn't taxable income for federal tax purposes and associated expenses are deductible, it may not be the case when it comes to state taxes. At least five states include loan forgiveness as income. One state treats loan forgiveness as income for partnerships, S corporations and sole proprietors, but not for corporations.

EIDL for more rescue

The Economic Injury Disaster Loan (EIDL) program was created to provide economic relief to businesses that are currently experiencing a temporary loss of revenue due to the pandemic. The EIDL helps you meet your financial obligations and operating expenses.

The ARP will provide $15 billion to the Emergency Injury Disaster Loan Program (EIDL) for long-term, low-interest loans to be made by the Small Business Administration (SBA). Severely impacted small businesses with fewer than 10 workers will reportedly be given priority for some of the funds.

In fact, under the ARP, Targeted EIDL Advances for small businesses of up to $10,000 may be converted to grants if used to cover a business's operating expenses. An interest rate of 3.75% is required for loans under $25,000, while, for the record, EIDL grants are exempt from federal tax.

Rescuing the payroll

To encourage employers to keep workers on their payroll, last year's CARES Act created the Employee Retention Credit (ERC). The purpose of the ERC was to encourage employers to keep employees on the payroll, even if they aren't working due to the effects of the COVID-19 outbreak.

Under the new ARP, the ERC allows 70% (up from 50%) of a business's qualified wages to be immediately refundable via reductions in the required employment tax deposits. The ARP also extended the increased ERC through the end of 2021.

The credit is, as mentioned, 70% of qualified wages (including amounts paid towards health insurance) per full-time employee up to a cap of $10,000 of wages per employee. In other words, the employer can get a credit of up to $7,000 per employee per calendar quarter. Plus, the ERC can now be used to offset an employer's Medicare tax liability in addition to the Social Security tax.

Employer-provided sick pay and family leave pay

One of the first relief measures provided by our lawmakers to lessen the financial impact of the pandemic was the payroll tax credit for employers providing paid sick and family leave. There was also a similar credit for the self-employed.

The ARP extended the Family First Coronavirus Response Act (FFCRA) that originally required employers to provide sick pay, and emergency family and medical leave pay through the third quarter of 2021. While the plan doesn't reinstate the mandatory paid family and sick leave, it allows employers who voluntarily choose to offer the benefit through September 30, 2021.

Although employers are no longer required to pay employees forced to miss work due to COVID-19, payments voluntarily made to a qualified employee, subject to a maximum of $1,400 per week, are refundable, dollar-for-dollar, as a federal payroll tax credit by employers with fewer than 300 employees. The bill also increases the limit on applicable wages for which the credit can be claimed to $12,000 from $10,000, effective after March 31, 2021.

The plan also eliminates FFCRA exemptions provided earlier for employers with more than 500 employees or less than 50 employees. For self-employed individuals attempting to claim the credit, the number of days for which the credit can be claimed has been increased to 60 days (from 50 days), retroactive after December 31, 2020.

No rescue without taxes

Since no rescue plan is complete without taxes, ARP includes a number of tax provisions, including the already-mentioned payroll tax credits for employers and changes related to retirement plan funding.

On the plus side, the ARC provides that Targeted Economic Injury Disaster Loans (EIDL) received from the SBA will not be subject to income tax. Nor will the exclusion result in the denial of a tax deduction, reduction of tax attributes or denial of increases in basis or book value.

Not too surprisingly, lawmakers are already floating proposals to pay for this massive bill. Among the proposals for increased taxes are such things as:

• Raising the top corporate tax rate to 25% from the current 21%—and phasing out the 20% qualified business income deduction for owners of pass-through entities, such as S corporations, partnerships, etc.

• A minimum 15% tax on large corporations with over $100 million in profits would apply if deductions would otherwise allow them to pay less.

• Businesses that shift jobs overseas would face tax punishment, while enhanced tax breaks for businesses that expand domestic jobs will be forthcoming.

• Climate change will be addressed with enhanced tax credits for electric vehicles, energy-efficient homes and businesses, carbon recapture, use and storage, and eliminating tax breaks for fossil fuels.

Where to find help

To guide a business owner, operator or manager through this maze of new rules and benefits, the Community Navigator Services has been funded to the tune of $100 million to provide outreach, education and technical assistance with the SBA's programs.

Although Community Navigators, community organizations or community financial institutions will provide invaluable services, professional guidance will be required to maximize the benefits you may wish to explore. **GT**

Mark E. Battersby is a freelance writer who specializes in business finance. He can be reached at mebatt12@earthlink.net.