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KBKG TAX INSIGHT:

(AB 80) PPP LOAN IS TAX DEDUCTIBLE IN CA & IMPACT ON R&D TAX CREDIT

Authors: Elise Rhee & Kevin Zolriasatain

Assembly Bill 80 ("A.B. 80" or the "bill") allows taxpayers that meet certain criteria to exclude PPP loans and EIDL advance grants from gross income for tax purposes.

After months of uncertainty, California taxpayers can begin to proceed with some degree of clarity around the treatment of Economic Injury Disaster Loans ("EIDL") as well as Paycheck Protection Program ("PPP") loans received and forgiven for income tax purposes. Assembly Bill 80 ("A.B. 80" or the "bill") allows taxpayers that meet certain criteria to exclude PPP loans and EIDL advance grants from gross income for tax purposes. Prior legislation excluded PPP loan amounts that were ultimately forgiven from gross income for tax years beginning on or after January 1, 2020. A.B. 80 is applicable to tax years beginning after January 1, 2019, effectively helping fiscal and calendar year filers.

Prior Legislation (Assembly Bill 1577) precluded taxpayers from taking deductions or credits on expenses covered by forgiven PPP funds. With its passage, A.B. 80 provides significant tax

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relief to many California businesses affected by the coronavirus in 2020 and represents a significant deviation from initial proposals around the treatment of forgiven PPP funds. Some of the key differences between the final version of the bill and previous proposals center around deductibility limits and taxpayer eligibility. A.B. 80 does not have a limit on the amount of expenses that may be deducted. Additionally, to be eligible to take the deduction, a taxpayer:

- Cannot be a publicly-traded company; and
- Must have experienced a 25% reduction in gross receipts in any 2020 calendar quarter as compared to the same quarter in 2019.

The California bill is in general conformity with the federal rules and will impact the vast majority of California taxpayers that received PPP funds.

HOW THIS IMPACTS THE CALIFORNIA R&D TAX CREDIT

Many taxpayers used the PPP loans to cover payroll expenses which have historically been the largest driver of credits. With the passing of A.B. 80, eligible taxpayers that have used PPP loans to pay for Qualifying Research Expenses ("QREs") can qualify the amounts covered by the loan towards the research credit. Taxpayers who did not experience a 25% reduction in gross receipts can continue to benefit from the CA R&D credit but will have to back out the covered amounts in the calculation of QREs and resulting credits.

Questions about the interaction between the passing of A.B. 80 and the R&D Tax Credits? We're here to help. Contact us today for assistance.

Authors: Elise Rhee & Kevin Zolriasatain

About the Authors

Kevin Zolriasatain – Principal
Pasadena
Kevin is a Principal and Practice Leader of KBKG's Research and Development (R&D) Tax Credit Services from our Pasadena headquarters. He has over 14 years of consulting experience providing R&D tax credit services to companies of various sizes. Prior to KBKG, he spent nearly a decade at PricewaterhouseCoopers focusing on securing R&D Tax Credits for Fortune 500 companies. Kevin enjoys working with small to mid-size business owners and over his career has documented hundreds of millions of dollars in research credits. » Full Bio

Elise Rhee – Research and Development (R&D) Tax Credit Senior Manager
Pasadena
Elise Rhee is a Senior Manager with KBKG working for the Research and Development (R&D) Tax Credit department. She has 8 years of consulting experience providing R&D tax credit services to companies ranging from architectural & engineering, food & beverage, software development, cosmetics, manufacturing, automotive, and aerospace & defense. » Full Bio