Confused by the debate on PPP loans and "conformity"?

Here's how it works

Let's start with **C-Dubs** who owns a donut shop

C-Dubs Donuts has 12 employees (mostly part-time) & $90,000 of payroll expenses in Jan-Mar 2020.

C-Dubs received a $75,000 PPP loan, which was used to keep staff employed for take-out only, so the loan was forgiven.

Sales recovered, but only partly.

Now let's look at **Jane** who owns a family law firm

J Law has 8 employees and had $300,000 of payroll expenses in Jan-Mar 2020.

J Law switched to work-from-home in March. Jane received a $150,000 PPP loan, which was used for staff salaries, so the loan was forgiven.

Demand for J Law's services actually increased in 2020.

What about **Alice** who runs a catering business?

A's Catering has 4 employees and had $40,000 of payroll expenses in Jan-Mar 2020.

Like a lot of Black business owners, Alice doesn't have much credit history or a personal relationship with a bank. Alice tried to get a PPP loan but banks wouldn't work with her.

In Apr 2020, Alice pivoted to delivering meals to families. The margins were lower, but demand was high. Alice kept her staff employed.

A's Catering had $120k in sales. With no PPP loan, that was her total income.

Alice spent a lot on gloves, masks, & cleaning, as well as payroll and food supplies. Alice made it work by skipping her own paycheck when there weren't funds to cover it. As a result, A's Catering has only $110k of deductible expenses for the year.

What did their income and expenses look like for 2020?

C-Dubs Donuts had $260k in sales & $75k in income from the forgiven PPP loan, for total income of $335k.

Although sales were down for 2020, so were food and fuel expenses, so total expenses for 2020 were $340k.

C-Dubs Donuts used a small bank loan to cover the $5k difference between income and expenses (C-Dubs did draw a salary of $60k).

J Law received $1.5 million in client fees & $150k in income from the forgiven PPP loan, for a total income of $1.65 million.

With few travel costs, total expenses for 2020 were $1.3 million, lower than usual.

Jane made a handsome profit of $350k in 2020 (she also drew a salary of $200k).

The impact of the PPP loan (or lack thereof) on gross income, loss, or profit

C-Dubs learns the PPP $$$ isn't taxed by Virginia or the IRS! His gross income is just $260k.

A new federal law from Dec. lets C-Dubs deduct the $75k of expenses paid for by the untaxed PPP $$$. His deductible expenses for federal tax purposes stays at $340k.

For IRS purposes it looks like C-Dubs Donuts lost $80k even though $75k of that was covered by PPP $$$.

Jane learns the PPP $$$ isn't taxed by Virginia or the IRS! Her gross income is just $1.5 million.

Under the new federal law, Jane can also deduct the expenses paid for by the $150k in untaxed PPP money.

For IRS purposes it looks like J Law only had a profit of $200k though Jane's profits were really $350k.

Alice learns she will owe federal and state taxes even though it didn't feel like she made any money in 2020.

And, remember, A's Catering didn't get a PPP loan.

How would each fare under Virginia's choice to conform to the latest federal law?

Whether or not Virginia conforms to that extra federal break, C-Dubs Donuts didn't make a profit in 2020, so it owes no federal or state income tax.

Under prior rules, J Law would pay about $20,000 in state income tax on the $350,000 profits. But if Virginia fully conforms to the new double-dipping provision, J Law will pay only about $12,000.

Because Alice was left behind by the PPP process, A's Catering wouldn't benefit if Virginia conforms to the double-dipping tax provision.

These businesses are fictional and are for illustrative purposes only.

The Commonwealth Institute