



“Economic Aid to Hard Hit Small Businesses, Nonprofits, and Venues”

House Small Business Committee

Chairwoman Nydia Velázquez

Overview: The COVID-19 pandemic has fundamentally altered our nation’s small business landscape. Earlier in the year, the mandatory closures to preserve public health shuttered small businesses across the country, adversely impacting their bottom lines. The CARES Act was signed into law, creating the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) to deliver emergency funding to these small businesses. More than 5.2 million PPP loans and approximately 3.65 million EIDL applications have been approved, totaling more than \$700 billion in economic relief.

Unfortunately, the pandemic outlasted the economic relief programs. Today, we are once again seeing a surge in COVID-19 cases and many state and local governments are re-imposing restrictions to curb the spread of the virus. Small businesses that were once thriving are fighting for their economic survival. According to the Met Life and Chamber of Commerce Small Business Index, which was released on December, “62 percent of small businesses say the worst of the pandemic’s economic impact lies ahead, and 74 percent say additional federal relief is needed to help their small businesses survive.”

Even more troubling, minority small business owners are being hit particularly hard. A recent survey conducted by the Reimagine Main Street Initiative of 8,000 diverse small business owners found that ten percent expect to close permanently in the next six months, and 45 percent expect to lay off at least one employee. Moreover, “33 percent of Black-owned, 26 percent of Native American-owned, and 21 percent of Hispanic-owned businesses report having less than one month of cash to cover expenses.”¹

That is why House Democrats fought hard to reopen the Paycheck Protection Program through March 31, 2021 and target economic relief to the truly small and underserved businesses that need it the most.

¹ REIMAGINE MAIN STREET, *BUSINESS OWNERS OF COLOR AND COVID-19*, (2020).

Summary

Reopen the Paycheck Protection Program

The PPP has been a critical lifeline for more than 5 million small businesses and their employees. To ensure small businesses can obtain much-needed economic relief, the bill would reopen the PPP through March 31, 2021, with \$284.45 billion in funding available for eligible small businesses and non-profits.

Prioritize America's Smallest Businesses, Particularly Minority- and Women-owned

Witnesses testified before the House Small Business Committee that small businesses with pre-existing relationships with lending institutions were able to access PPP funds faster and more efficiently than those without. Women- and minority-owned small businesses were particularly harmed by the “first come, first serve” policy adopted by the Administration. To compound the problem, minority-owned businesses are at a much greater risk of failing. According to a study by the New York Federal Reserve, “[b]lack businesses experienced the most acute decline, with a 41 percent drop. Latino business owners fell by 32 percent and Asian business owners dropped by 26 percent. In contrast, the number of white business owners fell by 17 percent.” To ensure capital is available for America's truly small and underserved businesses, the bill would:

- create two set-asides for small businesses borrowers with 10 or fewer employees and businesses located in Low to Moderate Income (LMI) areas for loans up to \$250,000:
 - \$15 billion set-aside for initial PPP loans; and
 - \$25 billion set-aside for second PPP loans.

Moreover, the set-asides that were put into place for the second round of PPP funding allowed mission lenders to increase their lending to the hard-to-reach communities. To continue with that success of working with unbanked and underbanked businesses, the bill would:

- create two set-asides for these community lenders:
 - \$15 billion for small community banks, small credit unions, and small agricultural credit institutions; and
 - \$15 billion for mission-based community lenders like community development financial institutions (CDFIs), certified development companies (CDCs), minority depository institutions (MDIs), and SBA Microloan intermediaries.

Allow Second Round of Forgivable Loans for Small Businesses Most Impacted by Pandemic

Small companies in certain sectors have been especially hard hit by the pandemic. Restaurants have had to temporarily shutter their doors and put strict social distancing measures in place when reopening to prevent the spread of COVID-19. And the coming months look bleak for those in the restaurant industry. Without federal aid, nearly 60 percent of chain and independent full-service operators expect additional furloughs and layoffs, and the number of closures will undoubtedly rise. This pandemic has significantly reduced their bottom lines, threatening their viability and long-term survival. To help these struggling small businesses, the bill would:

- allow businesses with less than 300 employees and revenue losses of at least 25 percent to apply for another round of PPP funding.

Expand the use of PPP funds to include new expenses and help hard hit industries like restaurants. These new expenses, which are also eligible for forgiveness, are:

- personal protective equipment (PPE) and adaptive investments to help small business owners comply with health and safety guidelines;
- operations expenditures for payments on software and other items for human resources and accounting needs;
- supplier costs that are essential to business operations, including perishable goods; and
- property damage caused by public disturbances that aren't otherwise covered by insurance.

Add specific types of group insurance payments, such group life, disability and vision, and dental insurance as eligible for payroll costs.

Strengthen and Improve PPP

The bill includes a number of provisions to improve the PPP, it would:

- expand eligibility to small nonprofits, including 501(c)(6), destination marketing organizations (DMOs), and housing cooperatives with 300 or fewer employees, provided their lobbying activities do not exceed 15 percent of their lobbying activities and the cost of their lobbying activities does not exceed \$1,000,000;
- expand eligibility to news organizations with 500 or fewer employees;
- create more flexibility so borrowers can select their covered period for their loan between 8 and 24 weeks;
- ensure borrowers are eligible for both PPP and EIDL simultaneously, so long as the EIDL is used for purposes other than PPP-covered payroll expenses; and
- provide \$50 million for PPP auditing and fraud mitigation purposes.

Streamline Forgiveness for Small-dollar Loans

PPP loans under \$150,000 represent approximately 86 percent of loans, but only 26 percent of loan dollars. To reduce onerous paperwork for borrowers and lenders, the bill requires borrowers with loans up to \$150,000 to submit a one-page certification with only essential information to their lenders and preserve documentation to substantiate in the event the Administration audits the loan.

Limit Total PPP Loan Amount to \$2 Million For Small Businesses with Multiple Locations

To ensure the PPP funding is targeted to small businesses, the bill would limit the total amount of the loans to \$2 million for small businesses with multiple locations.

Ensure PPP funding is Targeted to Small Businesses, Not Large Publicly Funded Companies

The bill would prevent publicly traded companies from receiving PPP funds.

Improve Transparency

After gaining access to data and seeing where improvements could be made, the bill would:

- immediately require the collection of voluntary demographic information; and
- require the SBA to comply with all oversight requests by Congress and the Comptroller General.

Target Grants to Shuttered Venue Operators

The PPP and other economic relief programs haven't worked for live event venues, which are completely shuttered and depend on the gathering of large groups of people in order to conduct business and survive. The live event industry is experiencing upwards of 90 percent revenue loss

and will be closed well into 2021 due to health and safety concerns posed by large gatherings. A Chicago study estimated that a single dollar spent at a small venue resulted in \$12 of economic activity for neighboring restaurants, hotels, and retail shops. Moreover, these cultural venues drive revenue to other businesses in cities and towns across America. The bill authorizes:

- \$15 billion for SBA to offer grants to eligible live venue operators, theatrical producers, live performing arts organization operators, museum operators, motion picture theatre operators, or talent representatives to address the economic effects of the COVID-19 pandemic on certain live venues;
- In the initial 14-day period of implementation, grants will be awarded to eligible entities with revenue losses of at least 90 percent, and in the following 14-day period, grants will be offered to entities with at least 70 percent revenue loss. After these two periods, grants will be awarded to all other eligible entities; and
- The grants can be used for payroll costs, rent, utilities, and PPE.

Improve the Economic Injury Disaster Loan Program

The EIDL program was intended to get cash quickly into the hands of small businesses owners, experiencing dramatic cash flow problems due to the pandemic. In administering the programs, SBA unilaterally imposed policy changes to limit the relief, shortchanging millions of small businesses and against Congressional intent. On July 11th, funding for the EIDL grant program lapsed. To ensure struggling small businesses receive economic relief quickly, the bill would:

- target the \$10,000 advance to low-income communities to ensure continuity, adaptation, and resiliency;
- permit small businesses in low-income communities that received an EIDL advance to receive additional funds, up to \$10,000;
- extend covered period for emergency EIDL grants through December 31, 2021;
- allow more flexibility for SBA to verify that emergency EIDL grant applicants have submitted accurate information;
- extend time for SBA to approve and disburse emergency EIDL grants from 3 to 21 days; and
- authorize an additional \$20 billion for emergency EIDL grants.

Provide a Bridge for Small businesses As They Turn From Short-term Recovery Assistance to Long-term Recovery and Growth

Implementing tried and true policies that worked after the Great Recession in SBA's existing loan programs – such as lowering fees and increasing government guarantees and loan limits in the SBA's traditional loan products, like 7(a), 504, and Microloans will go a long way to help build back better. To that end, the bill would:

- extend debt relief from principal and interest for SBA borrowers for an additional 3 months, and provide an extra 5 months of debt relief for underserved borrowers (in all cases, monthly payments are capped at \$9,000 per month per borrower); *See chart, Appendix A.
- reduce the cost of capital by waiving fees associated with the SBA 7(a) and 504 loan programs for borrowers and lenders, including the Community Advantage and Export loan programs;
- expand the pool of available capital for small firms by increasing the annual lending limit of the 7(a) program from \$30 billion to \$75 billion;

- incentivize lenders to make loans by increasing the guarantee up to 90 percent on 7(a) loans;
- create parity between bank-held and secondary market-owned 7(a) loans to seek up to a one-year deferral on loan payments;
- require SBA to buy back secondary market 7(a) loans if investors refuse to provide the extended deferral;
- enhance SBA's Microloan program to increase access to micro-capital and technical assistance by increasing overall program funding, increasing the amount Microlenders can borrow from SBA for re-lending, and increasing the amount of technical assistance grant funding Microlenders in underserved areas may access;
- enhance the 504 refinancing rules to create reciprocity for refinancing between 504 and 7(a) programs;
- authorize through September 30, 2023 an SBA 504 Express Loan Program for the most experienced successful 504 lenders to expedite 504 loans of less than \$500,000;
- require SBA to allow businesses in the 8(a) program to seek a one-year enrollment extension;
- extend the CARES Act waiver of the WBC matching funds requirement through June 30, 2021; and
- clarify that any awards made to SBDCs under this bill are in addition to and separate from any amounts appropriated under section 21 of the Small Business Act, and any award made under this bill may be used to complement and support such grant, so that CARES Act funds and annually appropriated funds can be used and tracked together as one funding stream.

Provide Additional Funding for Vital Programs and Services That Benefit the Underserved

- \$57 million for the Microloan Program, with \$50 million for Microloan Technical Assistance and \$7 million to leverage \$72 million in loans;
- \$25 million for Minority Business Development Agency.

Tax Provisions

Clarification of Tax Treatment of Paycheck Protection Program Loans.

The provision clarifies that gross income does not include any amount that would otherwise arise from the forgiveness of a Paycheck Protection Program (PPP) loan. This provision also clarifies that deductions are allowed for otherwise deductible expenses paid with the proceeds of a PPP loan that is forgiven, and that the tax basis and other attributes of the borrower's assets will not be reduced as a result of the loan forgiveness. The provision is effective as of the date of enactment of the CARES Act. The provision provides similar treatment for Second Draw PPP loans, effective for tax years ending after the date of enactment of the provision.

Clarification of Tax Treatment of Certain Loan Forgiveness and Other Business Financial Assistance Under the Coronavirus Relief Legislation.

The provision clarifies that gross income does not include forgiveness of certain loans, emergency EIDL grants, and certain loan repayment assistance, each as provided by the CARES Act. The provision also clarifies that deductions are allowed for otherwise deductible expenses paid with the amounts not included in income by this section, and that tax basis and other attributes will not

be reduced as a result of those amounts being excluded from gross income. The provision is effective for tax years ending after date of enactment of the CARES Act. The provision provides similar treatment for Targeted EIDL advances and Grants for Shuttered Venue Operators, effective for tax years ending after the date of enactment of the provision.

Employee Retention Tax Credit Modifications. The provision extends and expands the CARES Act employee retention tax credit (ERTC). It also contains technical corrections to the CARES Act. Beginning on January 1, 2021 and through June 30, 2021, the provision:

- Increases the credit rate from 50 percent to 70 percent of qualified wages;
- Expands eligibility for the credit by reducing the required year-over-year gross receipts decline from 50 percent to 20 percent and provides a safe harbor allowing employers to use prior quarter gross receipts to determine eligibility;
- Increases the limit on per-employee creditable wages from \$10,000 for the year to \$10,000 for each quarter;
- Increases the 100-employee delineation for determining the relevant qualified wage base to employers with 500 or fewer employees;
- Allows certain public instrumentalities to claim the credit;
- Removes the 30-day wage limitation, allowing employers to, for example, claim the credit for bonus pay to essential workers;
- Allows businesses with 500 or fewer employees to advance the credit at any point during the quarter based on wages paid in the same quarter in a previous year;
- Provides rules to allow new employers who were not in existence for all or part of 2019 to be able to claim the credit; and
- Provides for a small business public awareness campaign regarding availability of the credit to be conducted by the Secretary of the Treasury in coordination with the Administrator of the Small Business Administration. Retroactive to the effective date included in section 2301 of the CARES Act, the provision:
 - Clarifies the determination of gross receipts for certain tax exempt organizations;
 - Clarifies that group health plan expenses can be considered qualified wages even when no other wages are paid to the employee, consistent with IRS guidance; and
 - Provides that employers who receive Paycheck Protection Program (PPP) loans may still qualify for the ERTC with respect to wages that are not paid for with forgiven PPP proceeds.

Appendix A.

\$3.5 Billion Debt Relief Extension
<i>New loans</i>
<ul style="list-style-type: none"> • First 6 months of P&I subsidy for all new loans approved between Feb. 1 and Sep. 30, capped at \$9,000/month (8 months window)
<i>Preexisting loans (including deferred)</i>
<ul style="list-style-type: none"> • 3 months extension for all 7(a), 504, microloans capped at \$9,000/month • Additional 5 months (8 total) for hard-hit industries, capped at \$9,000/month. • Additional 5 months (8 total) for all Community Advantage and Microloan