

# AB 80: Another Much-Needed Tax Break for California's Small Businesses

©2021 SWC | Stees, Walker & Company, LLP | All rights reserved. | No portion of this singlet may be used without the express and written permission of Laura Stees

California business owners received additional tax relief on Friday, April 30, when Governor Gavin Newsom signed Assembly Bill (AB) 80 – a COVID-19 economic recovery package that provides up to \$6.8 billion in state tax breaks for California businesses.

Under AB 80, forgiven PPP loans that businesses received from the federal government during the pandemic will not be counted as taxable income, which means businesses that received those loans – and meet certain requirements – can deduct the costs of expenses for those loans. AB 80 also applies to Economic Injury Disaster Loans (EIDL) targeted and advance grants.



According to state officials, the tax breaks will apply to 85 percent of the more than 1 million California businesses that received a combined \$97 billion in federal loans. That's about \$96,700 for each business.

## **Does Your Business Qualify?**

To deduct expenses paid with PPP loan forgiven amounts, your business must have 25 percent less in gross receipts from any quarter in 2020 compared to the corresponding quarter in 2019. If your business doesn't meet this threshold, it doesn't qualify, in which case you cannot deduct the expenses on your California tax return.

## AB 80: Another Much-Needed Tax Break for California's Small Businesses

*Continued from previous page*

Regarding second-draw PPP loans, AB 80 piggybacks on the same 25 percent gross reduction threshold. For details, consult the Small Business Administration's (SBA's) "[How to Calculate Second Draw PPP Loan Amounts.](#)"

Also note the following:

- The 25 percent gross receipts limitation doesn't apply to Economic Injury Disaster Loans (EIDL) advance grants, so you can exclude the EIDL grants from business income and fully deduct the cost of any expenses you used these grants to pay even if they don't meet the threshold reduction.
- AB 80 applies only to the exclusion from income for PPP loan forgiveness and EIDL advance grants. It doesn't apply to SBA subsidies paid on SBA loans, Shuttered Venue Operator Grants, or Restaurant Revitalization Grants. These subsidies/grants are subject to California tax, but expenses are fully deductible on the California return.
- AB 80 applies retroactively to taxable years beginning on or after Jan. 1, 2019.

### Unanswered Questions

AB 80 already has been passed by California's legislators and signed by the governor, but it opens the door to a slew of issues, including the following:

- How you take advantage of the new tax breaks if you already filed your 2020 tax return.
- Will the California's Franchise Tax Board (FTB) follow the SBA 25 percent gross reduction threshold guidelines allowing you to compare gross receipts in any 2020 calendar quarter to the comparable 2019 calendar quarter, or compare 2020 annual totals to 2019 totals?
- Can you merely certify your 25 percent reduction in gross receipts, or will you need documentation to prove the reduction?
- For the self-employed – If you don't meet the 25 percent reduction threshold, will you still be able to deduct owner compensation?
- If you changed your business entity's type (for example, from an LLC to an S corporation) in 2020, can you use the former business entity's 2019 gross receipts in the calculation?

As soon as we have answers to these questions from the FTB, we'll let you know.

### What This Means for You, Our Clients

AB 80 is great news for California business owners, but this tax relief introduces additional complexity into the already complicated tax-prep process. It will require a considerable amount of additional work for our business clients to file their 2020 tax returns or amend their returns. If we're taking on the added burden for you, we may need to charge an additional fee.

*Continued onto next page*

## AB 80: Another Much-Needed Tax Break for California's Small Businesses

Continued from previous page

The good news is that the amount of money you'll save in taxes because of AB 80's provisions will more than cover the cost. More good news is that we'll stay on top of any changes moving forward and keep you posted. While many questions remain unanswered, we're on it and will do whatever it takes to ensure that you're reaping the full benefits from AB 80's provisions and any other future tax relief legislation.

Stay tuned!

---

**Disclaimer:** *The information in this singlette about CalSavers is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this singlette should be construed as financial advice from the staff at Stees, Walker & Company, LLP, nor is this the information contained in this singlette intended to be a substitute for financial counsel on any subject matter or intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this singlette should act or refrain from acting on the basis of any information included in, or accessible through, this singlette without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.*



### Keep in touch.

16875 W. Bernardo Drive, Suite. 290  
San Diego, CA 92127  
p: (858) 487-4580 | f: (858) 487-8033  
w: [www.SteesWalker.com](http://www.SteesWalker.com)  
b: [blog.SteesWalker.com](http://blog.SteesWalker.com)

### Laura A. Stees, CPA

Partner & Business Strategist  
[Laura@steeswalker.com](mailto:Laura@steeswalker.com)

### Marni L. Walker, CPA

Partner  
[Marni@steeswalker.com](mailto:Marni@steeswalker.com)