

Business Tax Relief, California Follows Federal COVID-19 Tax Rules

California Governor Gavin Newsom signed a bill for COVID-19 business tax relief. It outlines State's intention to mirror federal forgiveness on business loans.



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California Governor Gavin Newsom has recently signed a bill regarding [COVID-19 business tax relief](#). This bill outlines the state's intention to mirror how a federal taxation law is forgiving certain business loans.

Bolstering Californian Small Businesses

Newsom signed three bills into law on September 9, 2020. The intention is to help bolster small businesses in California that are currently struggling because of the pandemic. Their other purpose is to encourage owners of such businesses to hire more employees.

Newsom has expressed his concerns for the state's small businesses that are vulnerable to pressures from the impact of COVID-19. With 44% of such businesses considering closure, it is clear these measures should benefit the state's economy.

Forgiven Loan Funds Will Not Be Taxable

One effort in the bill ensures that the state will not consider forgiven COVID-19 loan funds as taxable income. The second bill accelerates the use of bond funds. Primarily, though, its focus is on proposals with no relation to supporting businesses. Meanwhile, the third bill will offer struggling small businesses as much as \$100 million in tax credits. The businesses must agree to rehire laid-off workers or hire new staff to benefit from these credits.

Safeguarding Against Tax Increases

This new loan forgiveness plan will safeguard California business owners from tax increases triggered by Paycheck Protection Program (PPP) funds. The PPP was a federal loan implemented

by the President this spring. Businesses with fewer than 500 employees could benefit from PPP loans. The loans would help to cover operational expenses and payroll costs. In some circumstances, the businesses could convert these loans into subsidies.

This new law excludes forgiven loans as taxable income in California. This will mean the state will collect less revenue in taxes. Yet, there is likely to be a limited impact overall. This is because business owners cannot claim deductions for any expenses paid for with PPP funds.

However, the law that offers small business owners tax credits will have an immediate impact on California's budget. This \$100 million tax break realizes the Governor's promise to incentivize small businesses to restore jobs.

Which Californian Companies Can Benefit From This Tax Credit?

Eligible companies must have had fewer than 100 employees when 2019 ended. They must also have had a minimum drop of 50% in their gross receipts because of COVID-19 slowdowns.

Eligible businesses will get tax credits worth \$1,000 for every qualified employee hired from July to November's end. The maximum amount that a business can receive is \$100,000. Each business has a maximum of five years in which to use this credit. The business can apply it to any owed taxes, including sales and use taxes.

Will the Proposal Work?

It is, as yet, unknown whether this proposal is likely to work. The exact costs to the state when it comes to reduced tax revenue is also unclear. There is no reliable data about the number of businesses that will meet the essential criteria to receive the credit. It is believed just a thousand businesses in the state could benefit. Also, there has been no formula provided for assessing each business's relative needs. The only requirement is that a business must have lost half of its gross revenue. With a first-come, first-served arrangement provided by the law, many believe it will primarily only be larger businesses that profit. Smaller operations usually lack the legal and business accounting advice necessary to take advantage of the proposal.

All three laws will become effective January 1, 2021. The business tax relief credits will expire on June 1, 2026. This will apply whether or not the business owner has used them. However, California's Department of Tax and Fee Administration has to draft the application details and approve them this fall.

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