EIDL loans, restaurant grants offer relief to struggling small businesses

The American Rescue Plan Act (ARPA), signed into law in early March, aims at offering widespread financial relief to individuals and employers adversely affected by the COVID-19 pandemic. The law specifically targets small businesses in many of its provisions.

If you own a small company, you may want to explore funding via the Small Business Administration's (SBA's) Economic Injury Disaster Loan (EIDL) program. And if you happen to own a restaurant or similar enterprise, the ARPA offers a special type of grant just for you.

EIDL advances

Under the ARPA, eligible small businesses may receive targeted EIDL advances from the SBA. Amounts received as targeted EIDL advances are excluded from the gross income of the person who receives the funds. The law stipulates that no deduction or basis increase will be denied, and no tax attribute will be reduced, because of the ARPA's gross income exclusion.

In the case of a partnership or S corporation that receives a targeted EIDL advance, any amount of the advance excluded from income under the ARPA will be treated as tax-exempt income for federal tax purposes. Because targeted EIDL advances are treated as such, they'll be allocated to the partners or shareholders — increasing their bases in their partnership interests.

The IRS is expected to prescribe rules for determining a partner's distributive share of EIDL advances for federal tax purposes. S corporation shareholders will receive allocations of tax-exempt income from targeted EIDL advances in proportion to their ownership interests in the company under the single-class-of-stock rule.

Restaurant revitalization grants

Under the ARPA, eligible restaurants, food trucks and similar businesses may receive restaurant revitalization grants from the SBA. As is the case for EIDL loans:

- Amounts received as restaurant revitalization grants are excluded from the gross income of the person who receives the funds, and
- No deduction or basis increase will be denied, and no tax attribute will be reduced, because of the ARPA's gross income exclusion.

In the case of a partnership or S corporation that receives a restaurant revitalization grant, any amount of the grant excluded from income under the ARPA will be treated as tax-exempt income for federal tax purposes. Because restaurant revitalization grants are treated as tax-exempt income, they'll be allocated to partners or shareholders and increase their bases in their partnership interests.

Just like EIDL advances, the IRS is expected to prescribe rules for determining a partner's distributive share of the grant for federal tax purposes. And S corporation shareholders will receive allocations of tax-exempt income from restaurant revitalization grants in proportion to their ownership interests in the company under the single-class-of-stock rule.

Help with the process

The provisions related to EIDL advances and restaurant revitalization grants are effective as of the ARPA's date of enactment: March 11, 2021. Contact us for help determining whether your small business or restaurant may qualify for financial relief under the ARPA and, if so, for assistance with the application process.