

February 18, 2021

Philadelphia's treatment of grants authorized by the CARES Act and Consolidated Appropriations Act, 2021 (CAA)

Economic Injury Disaster Loan (EIDL) grants, Targeted EIDL Advances, SBA Loan Subsidy Payments, and Shuttered Venue Operator Grants ("COVID-19 Grants")

1. Business Income and Receipts Tax (BIRT) - Tax on Net Income (Method I and Method II Filers)

Grants to assist businesses are generally taxable under federal law.

If a grant is included in federal taxable income, it will also be included in Philadelphia taxable income, absent a specific exclusion.

Section 278(b) of Division N of the CAA provides, in part, that certain EIDL grants under CARES Act section 1110(e) and Targeted EIDL Advances under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act *shall not be included in the recipient's gross income* (including those funds already received) and *no deduction shall be denied by reason of that income exclusion*. Initially, the CARES Act had not excluded such grants from gross income.

The CAA provides similar federal tax treatment for SBA loan subsidy payments authorized by section 1112(c) of the CARES Act and for Shuttered Venue Operator Grants.

Philadelphia will conform to the federal treatment of COVID-19 Grants for the purpose of the Net Income portion of the BIRT and exclude them from taxable income. Expenses paid with COVID-19 Grants may be fully deducted.

2. BIRT - Tax on Gross Receipts

Generally, grants to businesses are included in Receipts if the recipient is expected to provide services. There is no service component associated with COVID-19 Grants.

COVID-19 Grants will be excluded from a taxpayer's Receipts for purposes of the BIRT Gross Receipts Tax.

3. Net Profits Tax (NPT)

For NPT purposes, Philadelphia will be consistent with its treatment of COVID-19 Grants for BIRT taxpayers.

Philadelphia will exclude COVID-19 Grants from Gross Receipts in the computation of Net Profits. Expenses paid with COVID-19 Grants are allowable business deductions.

Email revenuetaxadvisors@phila.gov with additional questions.