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Businesses should be aware of the potential tax implications of PPP loans

If your business was fortunate enough to receive a Paycheck Protection Program (PPP) loan taken out, you should be aware of the potential tax implications.

Generally speaking, the reduction or cancellation of non-PPP indebtedness (debt) results in income known as "Cancellation of Debt" income to you, the debtor, which may affect a debtor's tax bill. However, as spelled out in the "Cares" Act, the forgiveness of PPP debt is excluded from gross income.

What is important to note is that on April 30, 2020, the IRS issued Notice 2020-32, which provides that borrowers <u>cannot</u> deduct otherwise deductible expenses that they paid using funds from a PPP loan that was subsequently forgiven. In effect, the IRS eliminated the tax benefit of PPP loan forgiveness.

However, the IRS's position on this issue has been vastly criticized and some members of Congress have argued that the denial of the deduction for these expenses is inconsistent with intent of the program and the spirit of true forgiveness. Congress may pass new legislation directing the IRS to allow deductions for expenses paid with PPP loan proceeds. We are watching this very closely and will update you as we hear more information on this topic,

All this uncertainty impacts tax planning, particularly estimated tax payments and extension payments for 2020. Please contact your tax advisors and make certain that you are having discussions relating to the taxability of PPP funds.