



IRS clarifies position on PPP loan expenses

Please remember: Covid-19 pandemic is an unprecedented event and the PPP loans are a unique response to this crisis. Therefore, there is no prior precedent for taxability and the IRS is establishing its rationale for its decision.

The IRS has issued a ruling this week that clarifies its position that expenses paid with PPP loan funds will not be deductible. The IRS's position is defined from a series of previous court cases. In each of these cases, a private individual or organization issued loans to other individuals who fully reimbursed those loans. The courts ruled in those cases that the expenses paid with those loans were not deductible.

The IRS states in its ruling that PPP loan borrowers who have a reasonable expectation of loan forgiveness are similar to those borrowers in the earlier court cases who were not permitted to deduct expenses from their loans that were fully reimbursed.

Therefore, taxpayers that received a PPP loan and paid or incurred certain otherwise deductible expenses may not deduct those expenses in the taxable year in which the expenses were paid or incurred if at the end of that taxable year the borrower reasonably expects to receive forgiveness of the covered loan. Even if the application for forgiveness was not submitted by the end of the taxable year, these expenses are disallowed if taxpayers reasonably believe the PPP loan will be forgiven.

What does this mean for you:

1. If expenses are indeed to be taxable, it will be taxable in tax year 2020.
2. The IRS is solidifying its case as to why those expenses will not be deductible and we are more informed of their arguments.
3. You only disallow expenses on what you reasonably believe will be forgiven.

As always, please consult with your trusted financial advisor about how this impacts you. Our business and tax advisors are available to answer questions for you.

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