

PPP FORGIVENESS UPDATE



FEDERAL TAX DAY - CURRENT, I.3, IRS RELEASES GUIDANCE RELATED TO LOANS RECEIVED FROM PAYCHECK PROTECTION PROGRAM (NOTICE 2020-32), (MAY 1, 2020)

The IRS is providing guidance as to whether taxpayers receiving a loan under the Paycheck Protection Program (PPP) may deduct otherwise deductible expenses incurred in the taxpayer's trade or business.

BACKGROUND

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) expanded the Small Business Administration's (SBA) existing Section 7(a) loan program to include certain PPP loans. The PPP is made available from the SBA to provide small businesses with loans to help pay payroll costs, mortgages, rent, and utilities during the COVID-19 (coronavirus) crisis. All payments of principal, interest, and fees under the loans are deferred for at least 6 months. The loans are also forgiven for amounts payroll costs, mortgage or rent obligations, and certain utility payments incurred between February 15 and June 30. The amount forgiven is excluded from gross income of the eligible recipient and not considered cancellation of debt income for federal income tax purposes. The loans are 100 percent guaranteed by the SBA.

NONDEDUCTIBILITY OF PAYMENTS

Act Sec. 1106(i) of the CARES Act excludes the amount of a covered loan forgiven under Act Sec. 1106(b) of the CARES Act, from a taxpayer's gross income. This exclusion results in a "class of exempt income" under Reg. §1.265-1(b)(1). Thus, Code Sec. 265(a)(1) disallows any otherwise allowable deduction for the amount of any payment under Act Sec. 1106 to the extent of the resulting covered loan forgiveness because such payment is allocable to tax-exempt income. This prevents a double tax benefit.



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