



## IRS PROVIDES GUIDANCE ON DEDUCTIBILITY OF PPP LOAN-RELATED EXPENSES

When the Paycheck Protection Program (PPP) was enacted as part of the CARES Act in March, the law provided that forgiven PPP proceeds would not be included in taxable income. The IRS later released guidance in April that indicated eligible expenses funded by PPP loan proceeds would not be deductible for federal income tax purposes to the extent of any loan forgiveness, thus offsetting the tax-exempt loan proceeds. Shortly thereafter, Congress introduced legislation to explicitly provide that eligible expenses funded by PPP loan proceeds would be deductible, regardless of loan forgiveness. Unfortunately, that legislation has yet to be enacted which means the IRS will stand by its position above until Congress provides a legislative solution.

Even though the IRS provided the guidance above, uncertainty remained as to when the eligible expenses would be disallowed. More specifically, would expenses be non-deductible in the year they were incurred (2020) or in 2021, if the loan proceeds were forgiven at that time?

Late Wednesday, November 18<sup>th</sup>, the IRS provided long-awaited guidance on this timing issue.

Revenue Ruling 2020-27 provides that a calendar year taxpayer **may not** deduct PPP funded expenses in the 2020 taxable year if, at the end of the 2020 taxable year, the taxpayer has a **reasonable expectation** of PPP loan forgiveness on the basis of the eligible expenses it paid or accrued during the covered period. This holding applies even when the taxpayer **has not** submitted an application for forgiveness of the covered loan by the end of such taxable year.

Revenue Procedure 2020-51, provides a safe harbor which allows taxpayers to claim a deduction in 2020 if:

- The eligible expenses are paid or incurred during the taxpayer's 2020 taxable year,
- The taxpayer received a PPP loan and at the end of the year the taxpayer expects the loan forgiven in a taxable year after 2020, and
- In that subsequent taxable year, the taxpayer's request for forgiveness is denied or the taxpayer never requests forgiveness.

Under this scenario, the taxpayer can deduct expenses originally thought to be non-deductible on a timely filed return or can amend the return in the taxable year. Therefore, it may be advisable for some calendar year taxpayers who submitted their application for loan forgiveness in 2021 to extend their return.

### NEED ASSISTANCE NAVIGATING THIS ISSUE?

The summary above is a general overview of the guidance released by the IRS on Wednesday, November 18, 2020. If you have specific questions regarding the deductibility of PPP-related loan expenses, please contact your Saltmarsh tax advisor at (800) 477-7458.

### CONTACT US



**David Uslan, CPA**

[david.uslan@saltmarshcpa.com](mailto:david.uslan@saltmarshcpa.com)

Shareholder, Tax & Accounting



**Suzanne Cox, CPA, CIT**

[suzanne.cox@saltmarshcpa.com](mailto:suzanne.cox@saltmarshcpa.com)

Shareholder, Audit & Assurance



**Glenn Scharf, CPA, CVA**

[glenn.scharf@saltmarshcpa.com](mailto:glenn.scharf@saltmarshcpa.com)

Shareholder, Tax & Accounting



**Kristen Stogniew, Esq., CFE**

[kristen.stogniew@saltmarshcpa.com](mailto:kristen.stogniew@saltmarshcpa.com)

Shareholder, Financial Institution Advisory



**Andrew Kent, Esq., CVA**

[andrew.kent@saltmarshcpa.com](mailto:andrew.kent@saltmarshcpa.com)

Shareholder, Healthcare Consulting