



CARES Act
Paycheck Protection Program
Update as of 05-01-2020
Proceeds Non-Taxable – Offsetting Expenses Non-Deductible
“PPP”

The Paycheck Protection Program (“PPP”) provides SBA loans to Small Businesses with a potential for some, or all of the loan proceeds being forgiven. The purpose of the program is to help employers retain their employees at their current base pay.

The legislation, as written, was very clear that any amounts received under this program, that were ultimately forgiven, would be non-taxable to the recipient. The legislation and subsequent guidance issued by the IRS and the Small Business Administration never referenced how the underlying expenses would be treated. Since much of the selling point around the program was it would be non-taxable income to the recipients to the extent of the loan forgiveness, many interpreted this to mean the associated expenses would be deductible. The legislation itself, was silent regarding this issue.

On April 30, 2020, the IRS issued Notice 2020-32 to provide guidance on the deductibility for Federal Income Tax Purposes expenses that were paid using PPP proceeds that are non-taxable. In the guidance, the IRS has made clear that such expenses will be considered non-deductible expenses to the extent PPP loan proceeds are used and the loan is forgiven.

What does this mean for taxpayers?

In the end, taxpayers will not have taxable income realized from the PPP Loan. However, taxpayers will not be able to deduct the offsetting expenses. The result would be the same if they reported the income and deducted the expenses. Therefore, the IRS may require you to report the loan forgiveness on your tax return and show the offsetting expenses resulting in the proceeds having a zero-income tax effect.

We are sure more guidance and interpretations will be issued in the coming weeks. As we become aware of such information, we will update you through future emails and by posting additional information on our website.