

IRS: Still No Tax Deduction for PPP Loan Expenses

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A [new ruling from the Internal Revenue Service](#) doubles down on its earlier stance of businesses that received a Paycheck Protection Program loan cannot deduct most expenses related to the loan on their 2020 taxes.

The IRS recently issued Revenue Ruling 2020-27 concerning taxpayers that received a PPP loan. The ruling states that expenses incurred associated with the loan are not tax-deductible if the taxpayer reasonably expects to receive forgiveness of the covered loan.

In other words, if you believe the PPP loan will be forgiven, then you cannot deduct the expenses incurred with PPP funds.

The ruling gives two fact situations to illustrate the IRS's guidance. In each situation the taxpayer reports income on a calendar year basis and has received a PPP loan.

Situation 1: During 2020 Taxpayer A paid eligible payroll costs, interest on a mortgage, utility payments and rent expenses described in the CARES Act as eligible expenses with PPP funds. In November 2020, A applied to the lender for forgiveness of the covered loan on the basis of the eligible expenses it paid during the covered period. At that time, and based on A's payment of the eligible expenses, A satisfied all requirements under the CARES Act for forgiveness of the covered loan. The lender does not inform A whether the loan will be forgiven before the end of 2020.

Situation 2: During the covered period, Taxpayer B paid the same types of eligible expenses that A paid in Situation 1. B, unlike A, did not apply for forgiveness of the covered loan before the end of 2020, although B satisfied all other CARES Act requirements for forgiveness of the covered loan. B expects to apply to the lender for forgiveness of the covered loan in 2021.

The IRS determined that in both situations, A and B each have a reasonable expectation of reimbursement. At the end of 2020, the reimbursement of A's and B's eligible expenses, in the form of covered loan forgiveness, is reasonably expected to occur - rather than being unforeseeable. The IRS states that a taxpayer who received a PPP loan and paid eligible expenses that will enable the PPP loan to be forgiven may not deduct those expenses if the taxpayer reasonably expects its PPP loan to be forgiven. This is the case even if there has not been an application for loan forgiveness. If you are a business that received the PPP loan and have questions about this new IRS ruling, please [contact me](#) or anyone in the [Barley Snyder Tax Practice Group](#).

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