

IRS clarifies no deduction for PPP loan forgiveness expenses

The CARES Act



Adam Grais, David M. Kall, Christian D. Sorensen | Friday, May 8, 2020

The Paycheck Protection Program (PPP) was established by section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The program authorizes up to \$349 billion in forgivable loans to small businesses to cover certain costs during the COVID-19 crisis. These costs include payroll costs, certain employee benefits, interest on mortgage obligations, rent, utilities, and interest on existing debt obligations. A recipient of a PPP loan can have the loan forgiven based on the amounts spent for these permitted costs during the 8-week period following the loan's funding date, subject to certain adjustments and limitations.

Taxpayers usually must recognize taxable income when their loans are forgiven, but the CARES Act creates an exception to that rule. As a result, amounts forgiven under the PPP do not create taxable income for the borrower.

Payments by a business for rent, utilities, mortgage interest, and payroll costs and benefits paid to employees would usually be deductible as ordinary and necessary expenses of the trade or business. However, the CARES Act does not address whether deductions otherwise allowable under the tax code for payments of these expenses are permitted if funded with a PPP loan that is subsequently forgiven. As PPP loan recipients would effectively receive tax-free income if their loans are forgiven, the ability to deduct these expenses would result in a double benefit to the taxpayer.

The IRS released [Notice 2020-32](#) on April 30, 2020 and confirmed that such double-dipping will not be

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allowed. The notice clarifies that that no deduction will be allowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a loan pursuant to the CARES Act when the income associated with the forgiveness is excluded from gross income under the CARES Act.



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