

Yes, I Can Deduct Expenses Paid with a Forgiven PPP Loan

December 31, 2021

Congress Reverses IRS

Congress has overridden the IRS position that expenses paid with PPP loan proceeds cannot be deducted if the PPP loan is forgiven.

In our November 20, 2020, alert captioned “[Can I Deduct Expenses Paid with a PPP Loan?](#)” we addressed [Revenue Ruling 2020-27](#) in which the IRS expanded on its original position stated in [IRS Notice 2020-32](#), that no deduction is allowed for a Covered Expense which is otherwise deductible if the payment of the eligible expense results in forgiveness of a PPP loan. The IRS relied on its interpretation of the Internal Revenue Code, the CARES Act’s silence on the subject along with earlier decisions and rulings dealing with reimbursement of expenses and expenses associated with tax-exempt income in reaching this result.

On December 27, 2020, President Trump signed the [Consolidated Appropriations Act, 2021](#). It contains a number of separate acts, including “The COVID-related Tax Relief Act of 2020.” Section 276 of The COVID-related Tax Relief Act of 2020 specifically provides that “no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied, by reason of the exclusion from gross income” of a PPP loan. It is interesting to note that the Internal Revenue Code is NOT amended to include this language. Rather, subsection (i) of section 7A of the Small Business Act (as created by another part of the Consolidated Act) is amended to include this language.

This provision is very helpful to businesses. It restores the full benefit of the forgiveness of a PPP loan – no inclusion of income on forgiveness and the full use of deductions/tax attributes associated with the forgiven loan. It is effective for taxable years ending after the date of the enactment of the CARES Act.

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