

Company Expenses Paid with Forgiven PPP Loan Proceeds Are Tax Deductible

02.19.2021

The Consolidated Appropriations Act, 2021 (the “Act”) clarifies the treatment of business expenses paid with Paycheck Protection Program (“PPP”) loan proceeds that were subsequently forgiven. Prior to the Act, the Internal Revenue Service (“IRS”) issued guidance that businesses could NOT claim a tax deduction for business expenses that were paid with forgiven PPP loan proceeds. The IRS position was that businesses would recognize a “double benefit” since the forgiven PPP loan proceeds were excluded from taxable income. The Act reverses the IRS position and provides that such expenses are tax deductible. Please note that some states have taken a position that expenses paid with forgiven PPP loan proceeds are NOT tax deductible for state income tax purposes.

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