

Perspectives

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PPP Loans & Expense Deductibility

Client & Friends -

Yesterday, the IRS issued Notice 2020-32 to provide clarity on the tax deductibility of expenses paid with Paycheck Protection Program (PPP) loan funds. The forgiven portion of the loan is not taxable income per the CARES Act, but the CARES Act did not address the **deductibility** of the expenses. The IRS Notice states that any expenses paid using PPP loan funds that are forgiven will not be deductible on the company's tax return.

As most people are now aware, the PPP provides funding based on 2.5 months of the prior year's payroll cost. The amount of the funds used for payroll costs, rent, utilities, and certain other expenses over an eight-week period may be forgiven.

For example: A company with \$100k/month in covered payroll receives a PPP loan of \$250,000. If they utilize the PPP to cover \$200k of payroll, and \$20k in rent in the first 8-weeks, that amount will be forgiven. However, that company **will not be able to deduct the \$220k in forgiven costs on their tax return.**

We will be happy to assist you with questions about how this provision effects your specific tax liability. For additional resources related to COVID-19, visit the [COVID-19 section](#) of our website.

Special thanks to Dave McGuire of McGuire Sponsel for his insight - mcguiresponsel.com

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