

IRS Finally Rules on PPP Expense Deduction

The IRS has issued Revenue Ruling 2020-27 which denies any taxpayer the ability to deduct expenses that have been forgiven under the PPP loan program in 2020. This is also true if you wait until 2021 to ask for forgiveness. This follows the past IRS's logic that expenses related to tax-exempt income are not deductible. **This could all change if Congress passes further stimulus provisions that would include making these deductions available, and the President is willing to sign any new such stimulus measures into law. There is momentum in wanting to make this happen, but we do not know when.**

The Treasury is encouraging taxpayers to apply for forgiveness as soon as possible, but it may be better to wait until 2021 to optimize the amount and mix of expenses to be forgiven just to offer the ability of deferring these expenses as not deductible until next year. Some planning may need to take place to provide an optimal tax situation for you. If you've already applied and received forgiveness, then we will proceed with whatever rules are given to us.

You may want to fill out your application and only provide enough expenses to get full forgiveness. That is all that you are required to provide as far as expenses. After year-end you have more flexibility and control to get a more favorable result.

The IRS also issued Revenue Procedure 2020-51 which grants a safe harbor allowing certain taxpayers who reasonably know that they will not get full forgiveness of those expenses or will not apply for forgiveness to allow a deduction on the taxpayers' 2020 tax return limited to those amounts. This would have to be disclosed on your tax return when filed.

This is the best guidance that we have at this time regarding the deductibility of forgiven expenses under the PPP loan program. Hopefully, future legislation will change this, but until then this is the interpretation of the current law.

About the Author:

Lynndsy Beckmann joined the firm in 2015 and specializes in income tax planning and preparation, QuickBooks consulting and financial statement preparation. *We are here to help, please reach out at 402-371-1160 if you have any questions!*