

Paycheck Protection Program (PPP) Loans

There have been many questions relating to how to treat your PPP loan if forgiveness is given in a tax year different than the one you received the funds. In other words, if you have not yet had your loan forgiven at the end of 2020. The IRS has clarified this unknown with a Revenue Ruling.

Revenue ruling 2020-27 was recently issued, we have summarized the tax aspects here.

Please note, Minnesota has not conformed to the federal treatment of the Paycheck Protection Program.

The IRS and U.S. Treasury Department released guidance on November 18, in an effort to clear up confusion on the deductibility of expenses for businesses who received a PPP loan. The guidance states that if a business reasonably believes that a PPP loan will be forgiven in the future, whether or not you have applied for forgiveness at this point, the expenses related to the loan are not deductible.

WHAT THIS MEANS

What this means is, if you have received a PPP loan and reasonably believe or have applied but have not yet been approved of the debt forgiveness prior to December 31, 2020, as described by the IRS, the expenses that will be used to support the debt forgiveness application, will not be deductible on the 2020 return for Federal income tax purposes.

The IRS's stance on the non-deductibility of expenses debatably goes against Congress's intent. Due to this fact, there may be litigation on the issue.

Minnesota has not adopted the federal provision in considering that the debt forgiveness will NOT be taxable income. For Minnesota, the expenses will be fully deductible in 2020 and your business will pick up the debt forgiveness in the year that it is approved by the SBA.

We will continue to track any changes on the loan process and will advise as updates as they occur.

Please do not hesitate to give us a call if you have any questions.