

PPP and Deductions Quick Guide: What you need to know before December 31, 2020

The December 21 year-end COVID relief package passed by Congress contains good news for Paycheck Protection Program (PPP) loan recipients preparing 2020 tax filings.

Among other updates to the PPP, the new legislation indicates that PPP loans should be treated as a tax-free government benefit. Any loan forgiven under the CARES Act shall not be included as gross income to the business and borrowers can deduct expenses paid with the proceeds of the forgiven loans.

If you received a PPP loan or forgiveness, Finseca recommends that you discuss this PPP update as soon as possible with your tax professional.

Q: Does this new legislation override the notice issued on November 19 by the IRS and Treasury prohibiting the deduction of expenses covered by the PPP loan forgiveness program?

A: Yes, this legislation overrides the notice. While the IRS and Treasury had indicated they would not allow the deductions, once Congress passes legislation and it is signed into law by the President, the law supersedes any notice or regulation issued by agencies.

Q: When the PPP was first enacted into law earlier this year, Treasury and SBA issued many additional regulations and guidance modifying the plan. Should I expect the same now?

A: Yes, you should expect additional guidance from Treasury and SBA. However, you can also expect the foundational structure to be the same.

Q: For purposes of allowing the deduction of forgiven expenses under the PPP, how does the relief package treat partnerships or S corporations?

A: The bill modifies section 7A of the Small Business Act, to provide that a partner's distributive share of amounts with respect to a forgiven PPP loan are treated as if they were tax exempt income for purposes of section 705(a)(1)(B) of the internal revenue code. This means that the partner's outside basis is increased by these amounts. The legislation ensures that the increase in outside basis is equal to partner's distributive share of the amount of deductions that relate to amount that were forgiven under the PPP.

Q: I have not applied for forgiveness yet. How does that affect my ability to claim deductions?

A: It does not impact your ability to claim deductions. Earlier this year, the IRS and Treasury said you could apply for a deduction if the borrower was not planning to apply for forgiveness. Now, you should read Congress' action as saying you can claim your deduction even after receiving PPP loan forgiveness or not receiving it.

[View original Newswire announcement here.](#) Finseca Members will receive additional in-depth updates in January unpacking the benefits of this legislation to the financial security profession and your clients. Not a member, visit Finseca.org to [join today](#).

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