

## IRS Doubles Down on Non-Deductibility of Expenses Paid with Forgivable PPP Loan Proceeds

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Back in May, I reported on the IRS's issuance of Notice 2020-32, in which the IRS answered with a resounding "no" the question of whether businesses that used Paycheck Protection Program ("PPP") loan proceeds to pay deductible expenses (such as payroll or rent) are able to deduct these expenses if the PPP loan is later forgiven.

The IRS stated that because the amount of the forgiven loan is excluded from income, the forgiven loan is a class of exempt income under Section 265 of the Internal Revenue Code. As a result, Section 265(a)(1) applies, which disallows a deduction otherwise allowable under the Internal Revenue Code if allocable to one or more classes of exempt income (other than interest income).

The IRS has once again addressed this question, and is doubling down on its denial of the deduction. The IRS has issued Revenue Ruling 20-27, in which the IRS asserts that a taxpayer cannot deduct expenses paid with PPP loan proceeds if the taxpayer reasonably expects the loan to be forgiven.

In other words, the IRS's position is that a taxpayer cannot deduct in 2020 expenses paid with PPP loan proceeds if it expects the loan to be forgiven, even if the loan has not yet been forgiven at the time the 2020 tax return is filed.

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