

## **IRS Issues Guidance Clarifying the Deductibility of Expenses where a Business Received a PPP Loan**

*Published November 19, 2020* - On Thursday (November 19, 2020) the Internal Revenue Service provided clarification on the Paycheck Protection Program (PPP) and the taxability of loan proceeds forgiven under the Program. This clarification came in Revenue Ruling 2020-27. In this Ruling, the Internal Revenue Service addressed the situation whereby a taxpayer received a covered loan guaranteed under the PPP and paid or incurred certain otherwise deductible expenses with the proceeds of the PPP loan. These expenses often include certain payroll, mortgage interest, utility and rent costs.

In the ruling the IRS indicated a taxpayer may not deduct those expenses in the taxable year in which the expenses were paid or incurred if, at the end of such taxable year, the taxpayer has reasonably determined it has satisfied the requirements for forgiveness and the taxpayer reasonably expects to receive forgiveness of the covered loan on the basis of the expenses it paid or accrued during the covered period. This is the case whether or not the taxpayer has submitted an application for forgiveness of the covered loan by the end of such taxable year.

This Revenue Ruling is helpful in that it clarifies the IRS position for expenses paid with PPP loan proceeds. The Revenue Ruling also provides helpful guidance as businesses enter into year-end tax planning. We encourage you to contact Dopkins to understand the impact of CARES, Families First Coronavirus Response Act, and various other changes that impact 2020 relating to Tax Cuts Jobs Act of 2017.

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