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Tax Consequences of PPP Loan Forgiveness

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The CARES Act expressly provides that the amount of any PPP loan forgiveness is excluded from the PPP recipient's gross income. However, the CARES Act had been silent on the issue of tax deductions for the expenses associated with the loan forgiveness. In Notice 2020-32, issued April 30, 2020, the IRS addressed the tax deductibility of certain expenses. Specifically, small businesses whose PPP loans are forgiven may not deduct the payroll costs, rents, and other expenses that resulted in the loan forgiveness.

This tax treatment is designed to prevent a double tax benefit because the amount of the loan forgiveness is not taxable to the PPP recipient. As a result, the PPP program is a wash for tax purposes. However, it also diminishes the potential value of the PPP program. Given that the program is designed to maximize liquidity for small businesses, it is likely that Congress will step in to expressly permit the tax deductions. Senator Grassley, the Chair of the Senate Finance Committee, has stated that the Notice is contrary to legislative intent and Representative Neal, the House Ways and Means Committee Chairman, has indicated that the next round of relief legislation will address the issue.