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New COVID-19 Relief Bill Allows Deductibility of Expenses Paid with Forgiven PPP Loans

Lowndes Taxing Times Blog
12.21.2020

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As I previously reported in an article published earlier this month, the IRS has repeatedly taken the position that businesses cannot deduct otherwise deductible expenses (such as payroll or rent) if the business used Paycheck Protection Program (“PPP”) loan proceeds to pay those expenses if the PPP loan is later forgiven. I’m happy to share that Congress is rejecting the IRS’s position.

The new COVID-19 relief package announced by Congress yesterday will include a provision that allows businesses to take tax deductions for expenses paid with forgiven PPP loans. The specifics of this provision are not yet known, but it is expected that this will provide a significant tax benefit to businesses that incurred PPP loans.