

IRS Doubles Down: There's No Deduction for Expenses Paid With PPP Loan Fund

The Internal Revenue Service (IRS) previously announced that Paycheck Protection Program (PPP) loan borrowers who receive forgiveness may not take a deduction for the expenses paid with PPP loan proceeds—including wages, rent, utilities, and mortgage interest. With year-end approaching, borrowers who have not yet received or applied for forgiveness have been uncertain on how they should handle deductions for the 2020 calendar year. Should they take them and then amend their returns when (or if) forgiveness is approved? Or should they not take them in anticipation of receiving full forgiveness?

With the issuance this week of [Revenue Ruling 2020-27](#) and [Revenue Procedure 2020-51](#), the IRS provided direct guidance on this point and reaffirmed that no deduction may be taken if expenses were paid with PPP loan proceeds. The guidance explains that if forgiveness of a PPP loan is reasonably expected, the associated expenses are not deductible in the year incurred. This scenario covers borrowers who have already applied for loan forgiveness prior to year-end or who anticipate completing a forgiveness application and receiving forgiveness in the next year.

[The Revenue Procedure](#) also provides a safe harbor for PPP borrowers whose loan forgiveness has been partially or fully denied or who do not intend to request loan forgiveness. Such borrowers may claim a deduction for eligible expenses on a timely filed tax return or on an amended tax return.

This continues to be an unfortunate development in the PPP loan saga, particularly given that the apparent intent of the drafters of the CARES Act was that there would be no adverse tax consequences to a fully forgiven PPP loan. We understand that various groups continue to lobby Congress for legislation permitting deductions for expenses even if paid with PPP loan proceeds, which could be included in a potential broader stimulus bill. As with most issues involving PPP loans, borrowers need to stay abreast of the constantly changing regulations and adjust their plans appropriately.

Our Chambliss team continues to monitor this legislation and other legal impacts of the COVID-19 pandemic. Please contact [Jim Catanzaro](#), [Justin Furrow](#), Rachel Ragghianti, or your relationship attorney if you have questions or need additional information.

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