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Federal Tax Bulletin: Retroactive Deductibility of PPP-Funded Expenses Included in Federal COVID Relief Act

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CLIENT ALERT | 12.28.2020

Since the original enactment of the Paycheck Protection Program (“PPP”), the IRS has consistently taken the position that borrowers may not claim a deduction for expenses resulting in the tax-free forgiveness of their loan. (See *IRS Guidance Clarifies Non-Deductibility of PPP-Funded Expenses Where Loan Forgiveness is Reasonably Expected.*)

The IRS’s position has been unpopular and, at long last, Congress has reversed this result as part of the recent COVID relief act signed into law on December 27 (the “Relief Act”). The Relief Act provides that the tax-free forgiveness of a PPP loan will not result in the loss of a tax deduction, tax basis or other tax attribute of the borrower. This change retroactively applies to all taxable years ending after the date of original enactment of the PPP.

Future Vorys client alerts will address other aspects of the Relief Act. For questions about this bulletin, or other aspects of the Relief Act, contact your Vorys advisor.