



AICPA AND TRADE ASSOCIATIONS ASK CONGRESS TO FIX PPP LOAN DEDUCTIBILITY

From the *Journal of Accountancy* by Sally P. Schreiber, J.D.

In [a Dec. 3 letter](#) addressed to the U.S. Senate majority and minority leaders and the leaders of the House of Representatives, several hundred national trade associations, including the American Institute of CPAs (AICPA), and many state and regional affiliates appealed to Congress to pass legislation this year reversing the IRS's treatment of expenses paid by funds borrowed under the Paycheck Protection Program (PPP) that are ultimately forgiven. The AICPA and over 50 state CPA societies also sent a letter on the same day to the same recipients urging that PPP expense deductibility be included in any must-pass year-end legislation.

The PPP, created as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act authorized loans to certain businesses affected by the COVID-19 pandemic. If businesses use their PPP loans for certain qualified business expenses, then some or all of the loan may be forgiven, subject to certain tests. CARES Act Section 1106(i) explicitly excludes the forgiveness of PPP loans from gross income.

However, the IRS has subsequently issued guidance (Notice 2020-32 and Rev. Rul. 2020-27) providing that no deduction is allowed under the Internal Revenue Code for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a PPP loan because the income associated with the forgiveness is excluded from gross income for purposes of the Code under CARES Act Section 1106(i).

In the letter, the groups warned that “[t]he effect of this ruling is to transform tax-free loan forgiveness into taxable income, raising the specter of a surprise tax increase of up to 37 percent on small businesses when they file their taxes for 2020” (emphasis in original).

As the letter pointed out, many PPP loan recipients kept employees on their payrolls, even if they had little work to do, thus serving the program's intent of keeping people employed. Then, the IRS issued its rulings, which business owners are now viewing as a surtax on their workforce.

Therefore, Congress has been called to act before the end of 2020. “This tax will hit small business owners after their PPP loan has already been spent, and just as many states are re-imposing mandatory closures of thousands of businesses in the face of spiking numbers of COVID-19 cases,” the letter says.