



On April 30, 2020 the IRS issued Notice 2020-32 which provides guidance on the deductibility for Federal income tax purposes of certain expenses incurred by a taxpayer who received a Small Business Administration Payroll Protection Program (PPP) Loan.

Under the terms of the PPP Loan, if the funds are spent within an 8 week period on payroll and certain other expenses, such as rent, utilities and telephone, the loan is forgiven. The CARES Act excludes from gross income any amount that would be includible in gross income of the recipient by reason of forgiveness of the indebtedness.

In the notice, the IRS indicated 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 the PPP loan. The IRS has clarified in Notice 2020-32 that while forgiveness of the loan is excluded from income, the related expenses are not deductible.

The IRS cited Section 256 of the tax code, which states that deductions can't be taken if they are tied to a certain class of tax-exempt income. We will continue to watch for new developments on this issue, and will keep you informed.

Please contact us if you have questions regarding how this notice will affect your tax situation.

Ritz Holman LLP Waiver: this is a summary of information included in IRS Notice 2020-32. It is not considered legal or financial advice.