

Client Alerts

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Congress Confirms Tax Deductions for Expenses Paid with PPP Loans, Extends Other Tax Provisions

By: John C. Goheen, Frederick N. Widen and Adam R. Watowicz

About: Tax

December 22, 2020 – Congress gave recipients of loans under the Paycheck Protection Program (PPP) a holiday present when it confirmed the deductibility of expenses paid with proceeds of a PPP loan that is forgiven. This confirmation is part of the massive Consolidated Appropriations Act, 2021 (the “Act”) that Congress passed on December 21, 2020, and that the president is expected to sign.

The IRS had taken a contrary position by asserting that expenses paid with proceeds of a PPP loan are not deductible if the PPP loan is forgiven or reasonably expected to be forgiven. The IRS believed there would be an impermissible “double benefit” if the amount of the forgiven PPP loan was excluded from income, as allowed by the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in late March 2020, and if expenses paid with “tax-free” PPP loan proceeds were deductible.

The Act overrides the IRS position by providing in pertinent part that “no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied, by reason of the exclusion from gross income provided [under the CARES Act].”

Congress’ action is good news for taxpayers facing 2020 “phantom income” due to the unfavorable IRS position noted above. Some taxpayers may have calculated their estimated tax payments for 2020 based on the unfavorable IRS position. These taxpayers should take into account the favorable new law in computing their next estimated tax payment for 2020.

The Act also contains several other tax provisions favorable for businesses including the following: (1) for 2021 and 2022, the business meals deduction is increased from 50% to 100% for food and beverages purchased from a restaurant; (2) the employee retention tax credit (enacted by the CARES Act) is extended for wages through June 30, 2021, and expanded; and (3) the new markets tax credit is extended for five years (through 2025).

Ulmer’s **Tax Practice Group** is available to provide you with strategic advice and counsel on federal, state, and local tax issues. If you have any questions about the Consolidated Appropriations Act, 2021, please reach out to your contact at Ulmer or one of the authors listed above who can assist you.

The information provided in this client alert speaks only to the information and guidance we have available

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