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Expenses paid with forgiven PPP Loans are not deductible

On April 30th the IRS issued in Notice 2020-32 that stated expenses paid with a forgiven PPP loan are not deductible. Internal Revenue Code Section 265 holds that expenses related to tax exempt income are not deductible. This is the Code Section that prohibits you from deducting officer life insurance premiums on your income tax return: when the life insurance is received it is not taxable income, therefore, when the premiums are paid you cannot deduct the premiums. The IRS is applying the same logic to the PPP loans: paying payroll caused part of the loan to become tax exempt income.

Not deducting the expense gets us to about the same point as paying tax on the forgiven loan. If Congress intended to give the benefit of a tax deduction for expenses paid with a forgiven PPP loan future legislation will be required.

The PPP Loan program is continually evolving and new guidance is coming out every week. Please let us know if you have any questions.

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John A. Knutson & Co., PLLP, (JAK) is a Twin Cities-based accounting firm serving clients throughout Minnesota and beyond.



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