PPP Loan Forgiveness and Timing of Related Expense Reduction

The IRS in Notice 2020-32 had clearly stated that all expenses that were incurred to satisfy the PPP loan criteria and subsequently forgiven are not deductible. The question existed with the issuance of the Notice as to what year the taxpayer must reduce their expenses? The year they were incurred (2020) or the year that they were forgiven which could be 2021?

On November 19, 2020, the IRS issued Revenue Ruling 2020-27, which clearly stated that a taxpayer who receives a PPP loan in 2020, pays the required business expenses such as payroll, mortgage interest, and rent to comply with the forgiveness criteria, and has a reasonable expectation that the loan will be forgiven, must make the adjustment to reduce the expenses in 2020 even if the loan has not been forgiven or the application has not been filed.

On the same day, the IRS issued Revenue Procedure 2020-51 which provides a “safe harbor” in instances where the taxpayer in a later
year (e.g., 2021) is denied PPP loan forgiveness or
decides not to seek forgiveness of the loan
proceeds.

In this ruling, the IRS has reaffirmed and stated
that a taxpayer can deduct some or all of the
expenses to the extent that the loan proceeds were
not deductible. This can be accomplished by the
taxpayer deducting some or all of the expenses to
the extent the PPP loan was not forgiven on (1) a
timely filed (including extensions) original tax or
information return for 2020, (2) an amended 2020
return, or (3) a timely filed original tax or
information return for the subsequent tax year
(e.g., 2021).

In filing under one of the three instances cited
above, the taxpayer must attach a statement to
their return titled “Revenue Procedure 2020-51
Statement” which must contain the specific
information outlined in the revenue procedure.

John Lawrence & Melinda Garvin

Presented at the OSU Extension Income Tax
School 2020 Season