Taxation of EIDL Loans, EIDL Advancements, and Grants

Recently, participants have experienced confusion as to the taxable nature of EIDL (Economic Injury Disaster Loan) loans, EIDL advances, and grants to businesses such as the ones recently announced by the State of Ohio.

Economic Injury Disaster Loans (EIDL) are loans to businesses in a minimum amount of $15,000. These loans require the borrower to sign documents acknowledging them as such. Accordingly, any amount received is not taxable since it is a loan. The expenses paid with the proceeds of such loans are deductible.

Economic Injury Disaster Loan Advances, which are awarded in the amount of $1,000 per employee to a maximum of $10,000 to an employer, are forgiven and, thus, included in income. Accordingly, EIDL Advances are taxable and employee payroll and related costs are deductible.

The State of Ohio has made available grants to businesses such as the $10,000 per qualified small business awards and the $2,500 awarded to bars and restaurants with a liquor license. If a business receives one or both grants they are taxable and must be included in income. Since the grants are includible in income, related business expenses are deductible.

Some participants have stated that they have been told that the previously cited amounts that are taxable do not have to be included in income since they are disaster payments. The Internal Revenue Service has refuted this position and stated that such payments do not qualify as nontaxable disaster payments in a series of FAQs that they have issued.

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