

Tax Guidance on Paycheck Protection Program (PPP)

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Authors: [Matthew P. Delguyd](#)

The IRS has previously released guidance saying that expenses paid with Paycheck Protection Program (PPP) proceeds which would otherwise be deductible will not be permitted to be deducted. There was much hope in the business community that this ruling would be overturned since it effectively reduces the benefit of PPP by a company's marginal tax rate.

Unfortunately, the IRS released another revenue ruling on November 18, 2020 affirming its previous stance. The ruling [can be found here](#) and essentially states that if there is a reasonable expectation that a PPP loan will be forgiven then the PPP borrower cannot deduct expenses paid for with PPP proceeds for tax purposes.

Given that this is the second time the IRS has taken this stance, it is likely that legislation would be needed from Congress to change directions.

The impact on taxes can have a significant impact on cash flows and also on financial covenant calculations under credit facilities.

For more information, please contact your Benesch representative.

[Matthew P. Delguyd](#) at mdelguyd@beneschlaw.com or 216.363.4627.