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## LEGAL UPDATES

# PPP Loan Borrowers Receive Gifts From Congress

Businesses and organizations that obtained PPP loans earlier this year received a generous gift just before year-end. On December 21, 2020, Congress passed legislation, the Consolidated Appropriations Act, 2021, providing two significant wins for businesses.

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First, the legislation affirms that any Paycheck Protection Program (PPP) loans that are forgiven will not be taxable to the businesses and organizations that obtained the loans. Normally, forgiveness of debt is taxable to the debtor. Congress made explicit that this will not be the case for forgiven PPP loans.

Second, and more significantly, Congress confirmed that expenses paid from PPP loan funds could be fully deducted by the business or organization. Up until this legislation passed, businesses had been told that they would not be able to deduct compensation, rent, and other qualifying expenses paid from PPP loan funds. The IRS has consistently interpreted such deductions based on traditional tax principles. The Service reasoned that the forgiveness of loans, coupled with the deductibility of expenses was a significant double-dip for businesses. The IRS even issued Revenue Ruling 2020-27 and Revenue Procedure 2020-51 providing guidance to businesses who would not know if their loans were forgiven until next year. Now that Congress has spoken, these IRS rules have been rendered moot.

The new legislation also provides fresh PPP funding, makes Sec. 501(c)(6) not-for-profit organizations eligible for loans for the first time, and offers businesses facing severe revenue reductions the opportunity to apply for a second loan.

If you have any questions regarding PPP Loans, please reach out to one of our attorneys:

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## Related People

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