

Small businesses hit with another PPP tax change. Here's what it means.

Nov 24, 2020, 2:21pm EST

The IRS has added a new wrinkle to the Small Business Administration's Paycheck Protection Program.

The new guidance, issued Nov. 18, offers additional details on an earlier IRS decision from April 30 that decreed that normally tax-deductible items will no longer be deductible if they were paid for with PPP funds. Now, the tax agency has specifically prohibited any small business that has a reasonable expectation of PPP loan forgiveness from deducting those expenses in its 2020 taxes — even if it takes until 2021 or 2022 to reach actual forgiveness, or if the business has yet to even fill out a forgiveness application.

For businesses, that likely eliminates a potential strategy to defer their 2020 tax liabilities for a year while they wait to get their loans forgiven. This new rule — yet another wrinkle for small businesses to navigate in what's already been a string of contradictory government guidance around the PPP — is also harder to undo without congressional action, according to tax experts. And it doesn't make things much easier for the IRS, they said.

"In practice, this will be very challenging to enforce. How do you prove whether or not 'a business reasonably believes that a PPP loan will be forgiven in the future?'" said [LJ Suzuki](#), CEO of CFOShare, a Denver-based financial and accounting outsourcing firm.

The IRS has said small businesses that took PPP loans still come out ahead even if they can't deduct the expenses. Suzuki described that view as "technically correct," but "myopic" when it comes to business cash flow.

"Without the PPP, small businesses would have laid off staff, saving on expenses and saving cash. The only reason they kept staffing levels is because of the PPP, and the IRS is effectively punishing that action by pretending it wasn't a legitimate business expense," Suzuki said. "Using the past as guidance for the future, I am advising small business owners to wait a bit longer before applying for forgiveness to see what other changes may be on the horizon. Most businesses don't start paying debt service until August of 2021, so we have time to see what else unfolds."



A-WRANGLER

Small businesses are getting more PPP tax guidance from the IRS — but it may not be what they want to hear.

[Morris Armstrong](#), founder and owner at [Morris Armstrong EA LLC](#), a tax preparation and representation firm based in Cheshire, Connecticut, is among those who say small businesses will still financially benefit from the PPP loans, even with the limits on tax-deductible items. Instead, he's seen greater frustration around their race to get the loan dollars, and then facing state-mandated closures or reduced hours that further interfered with their businesses. But he said for small businesses that received sizable loans and spent them entirely on salaries, that should still end up as revenue-neutral.

"I think that people were expecting it to be free money and some of those expectations, based on what was reported, may have been warranted but were not correct," Armstrong said. "I give Congress and the Treasury some credit for getting out the money quickly, and maybe the law could have been written better."

For anyone hoping an incoming Biden administration can alter this, they may be out of luck, according to [Garrett Watson](#), a senior policy analyst at the Tax Foundation, a D.C. tax policy nonprofit.

"The incoming Biden administration may look into this guidance, but it's unlikely they'd be able to entirely reverse course even if they wanted to, absent congressional action that would allow for deductibility of expenses associated with a forgiven PPP loan," Watson said.

It's unclear whether Congress will act. The American Institute of CPAs recently called upon Congress to pass bipartisan legislation that would allow small businesses to deduct expenses paid for with PPP funds. But that legislation — the

Small Business Expense Protection Act of 2020, introduced in both the Senate and the House in May — has not moved out of committee.

"PPP recipients — particularly small businesses — cannot afford to be surprised with a tax bill next year on their PPP loan expenses and, more than ever before, need to be able to project how much cash they will have to cover their basic expenses," AICPA Vice President of Taxation [Edward Karl](#) said in a Nov. 23 statement. "And for owners of small, pass-through businesses, this translates to their homes and families directly. Members of Congress must act now and pass this legislation to ensure that struggling businesses and their owners can recover."

Andy Medici

Senior Staff Reporter

Washington Business Journal

