



PPP Loan Program – The last P is for Confusion

Small businesses were relieved when Congress put forth the Paycheck Protection Program (PPP). This was to be a very low interest loan that *could* be forgiven if certain parameters were met. While we still do not have an exact roadmap of how the forgiveness will be handled, it was widely understood to mean certain things.

Under the original rollout if businesses used the money to maintain payroll and some business operations, the loan would be forgiven and would not be considered income.

The rules for forgiveness were a bit vague and there was not full clarity from SBA or the banks, but it was thought to follow this:

- If at least 75% of the funds were used to maintain payroll and the remaining 25% was used to pay rent, mortgage (interest) and utilities, the loan would be forgiven.
- The forgiven loan would not count as income to the borrower
- Your loan forgiveness will be reduced if you decrease your full-time employee headcount. Your loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized in 2019. You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020

On Thursday, April 30th 2020 the IRS released guidance stating that expenses related to forgivable loans through the Paycheck Protection Program (PPP) won't be tax-deductible under Section 256 of the tax code. Under normal circumstances if debt is forgiven, it is counted as income to the person or entity that had it forgiven. This is a long standing procedure in the tax code. However, the PPP seemed to indicate that this would not be the case. Under this ruling, the loan will now be either treated as income or the business will not be allowed to deduct the expense. In most cases this may not be an issue. But it could be a concern to those entities that actually maintain income during this pandemic.

Example 1: *A company received \$30,000 in PPP money. They allocated and paid \$30,000 to payroll during the time frame for loan forgiveness. The loan is forgiven under the stated rules. Under the IRS guidance, the \$30,000 in those expenses are not deductible but the loan forgiveness is not income.*

Example 2: *A company received \$30,000 in PPP money. They allocated and paid \$30,000 to payroll during the time frame for loan forgiveness. The loan is forgiven under the stated rules. The company includes the loan as income and takes the expense. This creates a net zero accounting.*



In either case, the effect is essentially the same. The issue is that most businesses assumed that the loan would be forgiven, it would not be income and the expenses would be deducted. Congress could override the IRS's stance by passing a law that explicitly allows the deductions but we do not have any information on this as of yet.

The Treasury has also stated that any loan received \$2 Million or more will have to have an audit of how it used the money for loan forgiveness to take place. There is still no explicit guidance from the Treasury, IRS, SBA or the banks on what will exactly be needed for other businesses to be granted this forgiveness.

We will continue to monitor the situation and keep track of any changes that come about under this program.

Thank you,

NP Team