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IRS Confirms Nondeductibility of PPP-funded Expenses

The CARES Act provides that any forgiven PPP loan amount should be excluded from gross income for federal tax purposes. But the CARES Act did not expressly address the tax treatment of expenses paid with the forgiven funds. Businesses have been left to wonder whether they could not only receive tax-free funding but also potentially deduct the expenses paid with that funding for a double benefit.

IRS Provides Guidance

With the recent release of much-anticipated guidelines, the IRS confirmed that **otherwise deductible business expenses paid with forgiven Paycheck Protection Program (PPP) funds cannot be deducted for federal tax purposes**. The nondeductible treatment applies for any payment of eligible PPP expenses to the extent of the loan forgiveness.

Read more about how the rulings apply to calendar-year and fiscal year taxpayers, and a safe harbor when PPP recipients are denied forgiveness or granted forgiveness of an amount different than expected.

Contact Yeo & Yeo if you need assistance.

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