

IRS Confirms PPP-Funded Expenses Are Non-Deductible

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Literally tens of thousands of businesses received Paycheck Protection Program (PPP) loans under the CARES Act. The legislation was passed very quickly to avert a potential collapse of the U.S. economy at the beginning of the COVID-19 pandemic.

As often happens with legislation passed quickly, questions immediately arose about the tax consequences for PPP loan recipients.

The IRS has released guidance in Rev. Rul. 2020-27 which states that expenses which would otherwise be deductible that were paid with PPP funds cannot be deducted for federal tax purposes. The deductibility limitation applies to the extent of the loan forgiveness.

Essentially, if there is a reasonable expectation of the loan being forgiven in the whole or in part, the associated expenses are not deductible. This rule applies whether the forgiveness application is filed in 2020 or 2021 or when the actual forgiveness occurs.

Taxpayers who are unsuccessful in securing loan forgiveness in whole or in part may amend their 2020 tax return or claim the deduction in 2021.

Stay tuned if Congress may approve legislation modifying the treatment as outlined by the IRS.

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