

Do You Have to Pay Taxes on Your PPP Loan?

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The Paycheck Protection Program (PPP) proved to be one of the most extensive small business loan programs ever launched by the U.S. government. Over 5 million loans totaling over \$525 billion were issued during the first draw of the program, which ended August 8, 2020.

The second draw of the PPP launched January 19, 2021, with \$284 billion available to be disbursed and a few key differences. Eligible businesses must have 300 or fewer employees, whereas for the first emergency stimulus package, a business had to have 500 or fewer employees. Also, the maximum loan amount is now \$2 million, whereas the first PPP was \$10 million.

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However, most notable of the second draw PPP is that forgivable expenses have been expanded. In the first bill, businesses were eligible for loan forgiveness if the funds were used for payroll costs (60%) or payments on the business' mortgage interest payments, rent, or utilities.

Now, however, forgivable expenses have been expanded to include those related to operations (HR, accounting, IT), property damage, suppliers, and worker protection (facility modifications and personal protective equipment needed to operate safely under Covid.)

While this might spell good news for small businesses still struggling to stay afloat, there's another looming issue: taxes.

Since the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed in March 2020, tax guidance has changed several times. This was expected because the loan program was brand new. However, tax guidance changed again when the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) was passed in December 2020.

As a lender to small businesses, I am no stranger to answering business owners' questions about various loan programs and offering a range of solutions—and flexibility is certainly key in this pandemic.

Let's have a look at some of the burning questions some of my clients have had surrounding the treatment of taxes with respect to PPP loans. Of course, the landscape is changing, and new laws may be passed, so it's important to stay in close contact with your CPA or tax attorney for the most complete, up-to-date guidance.

Forgiven PPP loans and taxable income

Logically, if you receive money and don't have to pay it back, then that should be considered income, right? A PPP loan can be forgiven as long as at least 60% has been spent on employee payroll costs.

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However, since the CRRSAA was signed into law in December 2020, Congress made it clear that a forgiven PPP loan is completely tax-exempt and is not taxable income.

In further good news, business expenses paid for with PPP

funds can be written off like everyday business expenses. This means that payroll, rent, utilities—and for the second draw PPP, business services, software/IT, and property renovations/modifications—can also be written off.

Additional tax credit programs

As a further boost to small businesses, the U.S. Chamber of Commerce points out that businesses now have the opportunity to take out a PPP loan and simultaneously obtain the Employee Retention Tax Credit (ERTC) for both their 2020 and 2021 taxes, as long as the PPP and the ERTC don't overlap and cover the same payroll expenses.

Taking advantage of another program, businesses can utilize tax credits from the Families First Coronavirus Response Act (FFCRA) while also getting and using a PPP loan. As with the ERTC, businesses can take advantage of this program as long as the funds do not cover the same expenses.

Employers can also defer payroll taxes (as specified in the CARES Act) from March 27, 2020, through December 31, 2020, even after a PPP loan is forgiven. In order to give business owners some time and flexibility, 50% of the deferred taxes that accumulated in 2020 must be paid by December 31, 2021, and 50% of the deferred amount must be paid by December 31, 2022.

What PPP funds cannot be used for

Taxes cannot be paid with the proceeds from a PPP loan. The SBA has greatly expanded the allowable uses of PPP funds, but unfortunately, they cannot be used to pay a business' taxes.

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Small businesses that do not qualify for the PPP still have

several alternative financing options available to them and should consider any and all sources that make sense. Businesses often use a combination of financing strategies and some have had them in place as a Plan B. During these times, it's wise to be resourceful.

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