Legislative Briefing

Make PPP Expenses Deductible

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Congress created the Paycheck Protection Program at the beginning of the 2020 pandemic recession crisis. The PPP goal was to infuse small businesses with cash as state and local shutdowns abruptly cut off businesses' sources of income. More than five million small businesses, including thousands of community newspapers, received the loans. The cash infusions helped them to sustain their businesses through mid-August.

Congress declared in the Section 1106(i) of the CARES I act which created PPP that the income from these small business loans would not be taxed. But the US Treasury later introduced a back-door tax on these funds by declaring that ordinary and necessary business expenses would not be deductible if covered by PPP loans.

Most businesses receiving loans had exhausted their funds by August, unaware that a major tax awaits them in April 2021 or earlier if they are subject to estimated fiscal year tax payments. Legislation to correct the Treasury Department's interpretation was introduced in the Small Business Expense Protection Act, S. 3612 and HR 6821, which together have 86 co-sponsors. Efforts have been made to include this correction in subsequent pandemic stimulus bills but have not yet succeeded.

Congress Must Allow PPP expense deductions

- **The intent of Congress is clear: PPP loans are not to be taxed. But the Treasury Department introduced a tax through its regulatory interpretation. The will of Congress should prevail.**

- **The PPP loan recipients have generally been unaware that their loan funds would be taxed. Most have already spent the money and have not set aside funds for tax liability.**

- **The mandate of PPP was to help small businesses stay afloat by providing quick and accessible sources of forgivable loans. The tax defeats the purpose of PPP.**

- **Businesses normally expect to deduct salaries, mortgage interest and other expenses that were covered this year by PPP. The receipt of a forgivable loan under the emergency environment of the pandemic should not be reason to disrupt carefully-constructed business plans.**

- **Treasury is wrong that allowing deductibility would constitute "double dipping" into Treasury funds. CARES I and subsequent legislation have already taken measures to prevent double dipping by blocking duplicate loans and overlapping funds from other government loans. An ordinary and necessary business expense is not the same as receiving two sources of federal funds for the same purpose.**