



# PROTECT SMALL BUSINESSES FROM SURPRISE TAX INCREASES

## ISSUE

IRS issued guidance reversing Congressional intent and disallowing the deductibility of Paycheck Protection Program forgiven expenses.

- To assist small businesses grappling with the economic fallout surrounding COVID-19, Congress created the Paycheck Protection Program (PPP) as part of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*.
- The PPP helped over 5 million small businesses keep employees on payroll and keep their businesses operational. If utilized appropriately on payroll and qualified expenses during the loan's covered period, the PPP loan is forgiven.
- Congress did not intend for forgiven expenses to be taxable. Section 1106(i) of the *CARES Act* states that forgiven expenses, "shall be excluded from gross income."
- The PPP is an immensely popular financial assistance option for small business owners, with 80% of NFIB members surveyed reporting they applied for this program. Approximately 68% of applications received funding before May 2 and 32% of applications received funding after May 2.
- Around that time, on April 30, the IRS issued Notice 2020-32, which disallows the deductibility of forgiven expenses. This regulatory decision, issued after the vast majority of small businesses received PPP funding, limits the benefits of the PPP and increases complexity for small business owners, who will have to separate payroll and business expenses for certain weeks during the loan's covered period.
- IRS Notice 2020-32 will effectively tax forgiven loan expenses on a gross basis, contrary to Congressional intent. Further, as the earlier data indicate, this decision was made after many small business owners applied for PPP loans and received loan disbursements.

## SOLUTION

Restore deductibility of forgiven Paycheck Protection Program expenses.

NFIB urges Congress to reinstate the ability to deduct forgiven expenses and reverse the IRS guidance.

Cosponsor H.R. 6821/S. 3612, the *Small Business Expense Protection Act of 2020*, to restore Congressional intent and make clear that forgiven expenses are deductible.

**Now is the time to support small business owners – not burden them further with backdoor tax increases and administrative headaches.**

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