

Recent Guidance on Treatment of PPP Loan Forgiveness Affects Tax Planning

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On November 18, 2021, the IRS released guidance on the timing of the receipt of tax-exempt Paycheck Protection Program (PPP) forgiveness income.

This guidance states that the income can be considered received when one of the following occurs:

1. Eligible expenses are paid or incurred;
2. An application for PPP loan forgiveness is filed; or
3. PPP loan forgiveness is granted.

This guidance is generally considered favorable for taxpayers and could have the following effect on owners of pass-through entities. The tax-exempt income would provide owners with tax basis to recognize current year or suspended losses thereby reducing taxable income and tax liabilities. It would also provide tax basis to exclude distributions as taxable income and may even reduce the taxable gain on the sale of an entity.

In addition, the tax-exempt income resulting from the forgiveness of a PPP loan is treated as gross receipts under the tax provision that (a) permits certain taxpayers

to use the overall cash method of accounting, and (b) allows certain contractors to use alternatives to the percentage of completion method for long-term contracts. However, it is important to note that although this gross receipts threshold will be increased from \$26 million to \$27 million for taxable years beginning in 2022, the timing of the PPP forgiveness inclusion can cause some taxpayers to exceed the threshold.

While 2021 has come to a close, the recent guidance from Rev. Proc. 2021-48 related to the timing of the PPP forgiveness income could still have a significant impact on tax planning. Taxpayers should consider the timing for recognizing tax-exempt income from PPP loan forgiveness both for its effect on tax basis, as well as the ability to take advantage of favorable methods of accounting.

For more information on the recent guidance regarding the treatment of PPP loan forgiveness and how it can influence your tax planning, please reach out to [Paul Gevertzman](#), [Joseph Molloy](#) or your Anchin Relationship Partner.