



December 3, 2020

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
H.232, the U.S. Capitol
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
S-230, the U.S. Capitol
Washington, DC 20510

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
H-204, the U.S. Capitol
Washington, DC 20515

The Honorable Charles Schumer
Minority Leader
U.S. Senate
S-221, the U.S. Capitol
Washington, DC 20510

Dear Leaders:

We want to urge swift action on the issue of tax deductibility from the borrower's federal income taxes of qualified business expenses forgiven under loans made through the Paycheck Protection Program (PPP). CPAs are now providing year-end tax planning to their small business clients; planning in the midst of coronavirus-induced economic uncertainty is particularly important to the preservation of jobs and the continued survival of these businesses. We, therefore, ask you to move a PPP expense deductibility provision as part of any must-pass, year-end legislative package.

The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act or Pub. L. No. 116-136) provided for PPP loans with the potential for tax-free loan forgiveness. Although it was clearly Congress' intent, the CARES Act was silent on whether otherwise deductible expenses associated with forgiven loans could be deducted for tax purposes.

On April 30, 2020, the IRS released Notice 2020-32, which contradicted congressional intent by declaring that no tax deduction is allowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a PPP covered loan. Further, on November 18, 2020, the IRS released Rev. Rul. 2020-27 which provides additional guidance restricting the deductibility of PPP loan-related expenses.

The IRS notice and revenue ruling fail to provide guidance in numerous PPP expense deductibility areas critical to the year-end tax planning needs of small businesses such as:

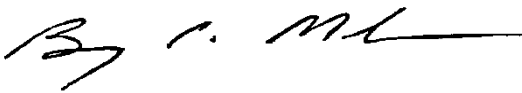
- The application of the Qualified Business Income deduction under IRC section 199A.
- The impact of the IRC section 51 Work Opportunity Tax Credit.
- How disallowed interest expense would be treated under the excess business interest expense limitation under IRC section 163(j).
- The allocation of expenses that are capitalized into inventory or long-term contracts.

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Small Businesses struggling to stay afloat were granted a lifeline through the PPP and having complied with the terms of PPP may now face burdensome and unexpected tax ramifications if Congress does not clarify its original intent. We urge you to include language from S. 3612 and H.R. 6821, the Small Business Expense Protection Acts of 2020, or H.R.6754, the Protecting the Paycheck Protection Program Act, in a must-pass legislative vehicle. These bills confirm Congress' clear intent and ensure businesses can operate with certainty as they focus on year-end business planning activities.

The AICPA is the world's largest member association representing the accounting profession, with more than 431,000 members in the United States and worldwide, and a history of serving the public interest since 1887. Together with the State CPA Societies, our collective members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. AICPA and State CPA Society members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses. We appreciate your consideration of our recommendations and welcome the opportunity to further discuss our comments.

Sincerely,



Barry C. Melancon, CPA, CGMA
President & CEO
American Institute of CPAs (AICPA)

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