



GLENN BURDETTE

COVID-19 RESOURCE UPDATE

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Summary:

Thanksgiving is here, but PPP borrowers didn't get the gravy on top of the turkey and mashed potatoes that they were hoping for.

We are thankful for all of you, our clients, friends, and fellow community members who make the Central Coast the incredible place that it is.

Stay safe and well everyone.

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THE IRS SPOILS
THANKSGIVING



tim.dossa@glennburdette.com

PPP Loan Updates 11/24/20

New Developments:

- There has been a **RATHER LARGE** development in the world of Paycheck Protection Program loans and Federal taxes.
 - The IRS has ruled that a taxpayer who received a PPP loan may ***not*** deduct the expenses incurred for which the taxpayer reasonably expects to receive forgiveness, ***even if the taxpayer has not submitted an application for forgiveness of the loan by the end of the taxable year.***
 - What does this mean?
 - It means that the payroll, rent, mortgage interest, and utilities costs that you used to calculate your PPP loan forgiveness **are not tax deductible** for Federal purposes for 2020.
 - Well, dang.
 - Is that your final answer?
 - For now, yes, but things could still change. Naturally.
 - The AICPA, along with 170 other organizations, are pushing Congress to back legislation that would change this ruling.
 - With both Houses of Congress and the White House in transition, it will not be until 2021 that we see any potential traction on this.
 - So now what?
 - Along with your decision on your choice for President, should we have a local sales tax increase, should you send your kids back to school in January, how many people should you have for Thanksgiving, and should you have one more glass of wine tonight (I mean, why not?), you now have another decision to make.
 - Do tax planning assuming that the expenses will be deductible and hope things change by the time you file your taxes (after extending).
 - Do tax planning assuming the current ruling won't change, and get a nice surprise if the chips fall the other way.
 - Leave it as a loan and deduct the expenses in 2020. However, if you do decide later to get forgiveness on the loan, you'll most likely have to file amended tax returns for 2020.

PPP Loan Updates 11/24/20

New Developments continued

- It's a lot to consider. With things still in flux, and it being so close to year end, there is no easy answer.
 - Things to consider:
 - The size of your loan
 - What would be the economic impact of paying it all back as a loan over 2 or 5 years (while getting the tax deduction in 2020) vs. the impact of taking the tax deduction in 2020, potentially losing that fight, and then having to pay the tax later, with penalties and interest.
 - Your cash flow situation
 - Are you prepared to pay more in taxes than you may have anticipated?
 - The timing of your tax return filing next year
 - It might be best to plan on filing an extension.
 - And we still don't know what the official tax day will be in 2021.
 - April 15 or July 15?
 - Don't forget about California
 - Regardless of what happens at the Federal level, California has stated that deductions should be taken on the 2020 return, and then added back into income in the year the forgiveness occurs.
- Reach out to your tax preparer and have a strategic conversation.

Happy Thanksgiving everyone!

And yes, I know the picture on the first page is from Christmas Vacation, which is not a Thanksgiving movie. But you can't tell me it didn't make you smile. Save the neck for me Clark!