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U.S. Tax Tips When You Got a PPP Loan

Paycheck Protection Program (PPP) loan is intended to help small businesses maintain payrolls and continue necessary payroll-related payments like rent and utilities. And if you meet the criteria, the loan may be forgiven. However, some small business owners do not know how to deal with this PPP loan forgiveness when they file the tax return. This article will give you some tips.

Congress specified, and the IRS clarified, that forgiven PPP loans will not count as taxable income. This applies whether your entire loan is forgiven or just a portion.

For the expenses paid with PPP loan, IRS initially stated that those expenses cannot be deducted if the loan was or will be forgiven. However, that changed with the coronavirus relief act signed into law on Dec. 27, 2020, which specifies that deductions should not be denied simply due to the loan being forgiven. That means expenses paid with your PPP loan are deductible.

Please note you cannot use the PPP loan to pay the business taxes if you would like to apply for the forgiveness. Business tax is not a qualified use of PPP loan.

Businesses applied for the PPP loan can also claim the Employee Retention Tax Credit if they meet the requirements.

- Suspended or partially suspended their business due to COVID-19 because of a government order or;
- Experienced a 20% decline in gross receipts when compared with the same quarter in the previous year.

The credit is calculated per employee and is 70% of up to \$10,000 in qualified wages paid per quarter. There is one important caveat: You cannot claim wages paid with a forgiven PPP loan. You can, however, claim the credit on wages paid above and beyond the amount forgiven.

[Reference]: <https://www.chicagotribune.com/business/ct-biz-ppp-loans-taxes-irs-20210215-wz44a3a66rekloapcv715esfze-story.html>



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