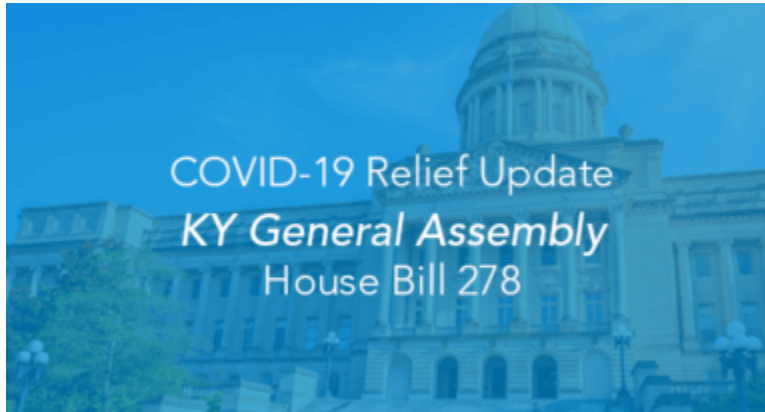


Kentucky General Assembly makes expenses paid with Paycheck Protection Program (PPP) loans deductible



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On Friday, March 12, 2021, the Kentucky General Assembly passed House Bill 278 (HB 278), providing deductibility for Kentucky tax purposes of expenses paid with Paycheck Protection Program (PPP) loans. The same bill provides for the exclusion from taxable income and deductibility of expenses paid with Economic Injury Disaster Loan advances.

The CARES Act, passed in March 2020, launched PPP loans and Economic Injury Disaster Loan (EIDL) advances or grants. The Act provided that the cancellation of indebtedness income from a forgiven loan would not be taxable income. The CARES Act was silent on the deductibility of expenses paid with loan proceeds and made no provision for EIDL advances.

The Consolidated Appropriations Act, 2021 (Appropriations Act) made expenses paid with PPP loan funds deductible for federal income taxes and provided that EIDL advances would be treated in the same manner as PPP loans. With the Appropriations Act, Congress reversed the Internal Revenue Service's decision that expenses paid with PPP loan proceeds would not be deductible. A collective sigh of relief could be heard across the country. Then, business owners and their advisors realized that deductibility of expenses at the state level would depend on each state's laws.

The Kentucky Department of Revenue announced that Kentucky law did not permit the deductibility of expenses associated with income not subject to tax. Thus, Kentucky taxpayers were back at square one for at least a portion of their 2020 tax liability. With the passage of HB 278, expenses paid with PPP loan proceeds are deductible, and EIDL advances are treated the same as for federal income tax; that is, the amount of the advance is not subject to tax and amounts paid with the proceeds of the advance are tax-deductible. The General Assembly's action is welcome, needed relief for most of Kentucky's small businesses. Governor Beshear has stated that he will sign the bill when it arrives on his desk.

For more information on COVID-19 relief efforts, visit our coronavirus relief resources page:

[COVID-19 Resources](#)

Do you have questions about House Bill 278? Contact your Dean Dorton advisor, or contact us at:

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