



Congress of the United States  
House of Representatives  
Washington, DC 20515-3605

August 10, 2020

The Honorable Nancy Pelosi  
Speaker  
United States House of Representatives  
H-232, The Capitol  
Washington, D.C. 20515

The Honorable Kevin McCarthy  
Minority Leader  
United States House of Representatives  
H-204, The Capitol  
Washington, D.C. 20515

Dear Speaker Pelosi and Leader McCarthy:

We appreciate your efforts in leading negotiations with the Administration and the Department of the Treasury on a coordinated government response to the COVID-19 pandemic and the severe economic fallout it has caused. We write today to encourage inclusion of language in the next stimulus package that would clarify to Treasury and the Internal Revenue Service (IRS) that business expenses paid for with the Paycheck Protection Program (PPP) loan proceeds remain tax-deductible.

On April 30, 2020 the IRS issued Notice 2020-32 to address the deductibility of loan amounts received under the PPP of the CARES Act. The IRS stated no tax deduction will be allowed for expenses paid with PPP loan proceeds to the extent such amounts are forgiven under the terms of the CARES Act.

The PPP was designed to help small businesses retain their employees and maintain their businesses throughout this economic crisis. One of its larger goals was to prevent millions of workers from losing their jobs and health insurance; as well as to avoid the resulting intense pressure those unemployed workers would have put on state and federal public assistance programs.

We believe Congress intended the PPP to be a tax benefit to help business owners to continue paying their employees – even if they were not working due to government-imposed lockdowns. Part of that incentive was the tax preferred nature of the program. Section 1106(i) of the CARES Act specifically states that “any amount which . . . would be includible in gross income of the eligible recipient by reason of forgiveness. . . shall be excluded from gross income.” In other words, to the extent to which a small business spends PPP funds in accordance with the terms of the program, Congress intended that the loan would be converted to a tax-free grant.

We have heard from numerous small businesses in Arizona that they will be harmed by revoking the standard business expense deduction to the extent of the forgiven portion of the loan. They made business spending and budget decisions based on the understanding that all of their standard business expenses would still be deductible if they participated in the PPP.

Many of these businesses would not have participated in the PPP had they known these standard business expenses would not be deductible. And many of these businesses now find themselves hard pressed to come up with the funds to cover this unanticipated and not insignificant tax bill.

We believe it is incumbent on Congress to make good on a promise relied upon by our small business constituents in Arizona and all over the country. They acted in good faith by not winding down their businesses and keeping their idle employees on their payrolls. We are therefore urging including language in the current stimulus legislation clarifying that otherwise deductible expenses will remain deductible if they are paid for with forgiven PPP funds.

The undersigned members of the Arizona congressional delegation thank you for your time and attention to this matter.

Sincerely,



David Schweikert  
Member of Congress



Ruben Gallego  
Member of Congress



Ann Kirkpatrick  
Member of Congress



Tom O'Halleran  
Member of Congress