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PPP Loan Forgiveness No Longer Bars Payroll Tax Deferral

COVID-19 Resource

Among the many benefits of the [Paycheck Protection Program Flexibility Act](#) (PPPFA), described [here](#) and [here](#), is an extension of the ability to defer payroll tax payments beyond PPP loan forgiveness.

Background

Section 2302 of the [CARES Act](#) allowed most employers to delay deposit of the employer portion of their social security taxes otherwise due between March 27 and December 31, 2020. Half of the deferred payroll taxes become due December 31, 2021 and the other half become due December 31, 2022. Basically an interest free loan. We described the payroll tax deferral rules [here](#) and the IRS provided implementation guidance [here](#).

CARES Act Section 2302(a)(3), however, denied the benefits of payroll tax deferral to any taxpayer receiving PPP loan forgiveness. Because receipt of a PPP loan does not guarantee forgiveness, the SBA and the IRS favorably interpreted this provision to permit PPP borrowers to defer payroll taxes incurred between the March 27 start date and the date of actual loan forgiveness. We explained those benefits [here](#).

New Law

Under the PPPFA, this limitation on PPP borrowers to benefit from payroll tax deferral is now completely removed. Businesses receiving PPP loan forgiveness thus now can continue to defer payroll taxes beyond their PPP forgiveness date.

Action Item

We have learned that some of our readers did not take advantage of the payroll tax deferral opportunity, either because of the short deferral period before PPP forgiveness or because of other uncertainties surrounding the program. Now that Congress changed the rules of the game, anyone who may have overlooked the enhanced benefits of this deferral opportunity should seriously consider taking advantage of this payroll tax deferral. This recommendation is directed particularly to those businesses who certified that they borrowed PPP funds to help ensure that they would have sufficient cash to cope with COVID-19 uncertainties. We encourage any client who still has questions about payroll tax deferral to contact one of our team members for additional information.