

Rev. Rul. 2021-2

This ruling obsoletes Notice 2020-32, 2020-21 I.R.B. 837 (May 18, 2020), and Rev. Rul. 2020-27, 2020-50 I.R.B. 1552 (Dec. 7, 2020), due to the enactment of § 276(a) of the COVID-related Tax Relief Act of 2020 (Act), enacted as Subtitle B of Title II of Division N of the Consolidated Appropriations Act, 2021, Public Law 116-260, 134 Stat.1182 (Dec. 27, 2020).

Notice 2020-32 and Rev. Rul. 2020-27 provide that certain taxpayers (eligible recipients) may not deduct certain otherwise deductible expenses to the extent that the payment of such expenses results (or is expected to result) in the forgiveness of a loan (covered loan) guaranteed under the Paycheck Protection Program authorized under § 7(a)(36) of the Small Business Act (15 U.S.C. 636(a)(36)) (SBA), as enacted by § 1102 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Public Law 116-136, 134 Stat. 281, 286-93 (Mar. 27, 2020). Section 1106(b) of the CARES Act provides for the forgiveness of covered loans and § 1106(i) of the CARES Act provides, for purposes of the Internal Revenue Code, that any amount that otherwise would be includible in an eligible recipient's gross income by reason of such forgiveness is excluded from gross income.

Section 1106(i) of the CARES Act was redesignated, and transferred to § 7A(i) of the SBA, and amended by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, which was enacted as Title III of Division N of the Consolidated Appropriations Act, 2021. Section 276(a) of the Act amended § 7A(i) of the SBA to provide that no amount shall be included in the gross income of the eligible recipient by

reason of forgiveness of indebtedness described in § 7A(b) of the SBA. See § 7A(i)(1) of the SBA. In addition, § 276(a) provides that no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied, by reason of the exclusion from gross income provided by § 7A(i)(1) of the SBA. See § 7A(i)(2) of the SBA. The amendment made by § 276(a) of the Act applies to taxable years ending after March 27, 2020, the date of the enactment of the CARES Act. See § 276(a)(2) of the Act.

As a result of the amendment made by § 276(a) of the Act regarding the Federal income tax consequences of covered loan forgiveness, the conclusion stated in Notice 2020-32, and the holding stated in Rev. Rul. 2020-27, are no longer accurate statements of the law. Accordingly, Notice 2020-32 and Rev. Rul. 2020-27 are declared obsolete as of the effective date of the amendment made by § 276(a) of the Act.

DRAFTING INFORMATION

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