



TaxNewsFlash

United States



No. 2020-433
July 6, 2020

FAQs on coronavirus relief fund payments to states, local governments (COVID-19)

The IRS today released a set of “frequently asked questions” (FAQs) concerning the treatment of “coronavirus relief fund” payments.

The “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) established and appropriated \$150 billion to the coronavirus relief fund. The fund is to be used to make payments for specified uses to states and certain local governments; to the District of Columbia and U.S. territories (Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands); and to tribal governments. The CARES Act provides that payments from the coronavirus relief fund may only be used to cover costs that:

- Are necessary expenditures incurred due to the public health emergency with respect to COVID-19
- Were not accounted for in the state or local government’s most recently approved budget (as of March 27, 2020, the date of enactment of the CARES Act)
- Were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020

Read the [FAQs](#) (dated July 6, 2020). Text of the FAQs is provided below.

Q. If governments use Fund payments as described in the Fund Guidance to establish a grant program to support businesses, would those funds be considered gross income taxable to a business receiving the grant under the Internal Revenue Code (Code)?

A. Yes. The receipt of a government grant by a business generally is not excluded from the business’s gross income under the Code and therefore is taxable. However, a grant made by the government of a federally recognized Indian tribe to a member to expand an Indian-owned business on or near reservations is excluded from the member’s gross income under the general welfare exclusion.

Q. If governments use Fund payments as described in the Fund Guidance to establish a loan program to support business, would those funds be considered gross income taxable to a business receiving the loan under the Code?

A. Generally, the receipt of loan proceeds is not included in gross income. However, if the government forgives all or a portion of the loan, the amount of the loan that is forgiven is generally

included in gross income of the business and is taxable unless an exclusion in section 108 of the Code or other Federal law applies. If an exclusion applies, an equivalent amount of any deductions, basis, losses or other tax attributes may have to be reduced in accordance with the Code or other Federal law.

The information contained in TaxNewsFlash is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230, as the content of this document is issued for general informational purposes only, is intended to enhance the reader's knowledge on the matters addressed therein, and is not intended to be applied to any specific reader's particular set of facts. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever.

Direct comments, including requests for subscriptions, to [Washington National Tax](#). For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.

To unsubscribe from TaxNewsFlash-United States, reply to [Washington National Tax](#).

[Privacy](#) | [Legal](#)