

SBA: Borrowers Must Recognize CARES Act Loan Subsidies As Income

Key Highlights:

- SBA requires borrowers to recognize, as income, any loan payments made on behalf of a borrower by the SBA.
- SBA requires lenders to complete and send the necessary IRS forms to such borrowers.

As part of the CARES Act, the Small Business Administration (SBA) was required to make loan payments (Section 1112 Payments) for Borrowers on certain SBA loans, and any payments made by SBA relieved Borrowers of the obligation to pay that amount. In April 2020, the SBA began making payments to cover, for a 6-month period, the principal, interest, and any fees that small businesses owe on Section 1112 Payments. This week, the SBA published a Q&A Information Notice addressing certain tax issues related to payments made on behalf of borrowers to lenders for existing SBA Section 7(a), 504 and Microloans.

In the SBA's Q&A, the total amount of the Section 1112 Payments must be reported as income to the borrower, including the principal, interest, and any fees that were included in the Section 1112 Payments. Lenders are generally responsible for preparing and filing Form 1099-MISC, specifically indicating the amount of principal, interest, and any fees that were made by the SBA to the lender on behalf of the borrower. These same reporting requirements apply to Microloan Intermediaries. However, SBA is responsible for issuing FORM 1099-MISC for loans, including Microloans, that have been purchased and/or serviced by the SBA, and is also responsible for issuing Form 1099-MISC for all 504 loans.

The Information Notice released by the SBA can be found by clicking [HERE](#).

Contact Us

Fraser Stryker's business are here to help:



Mark L. Brasee
mbrasee@fraserstryker.com
(402) 978-5306



Margaret A. Rossiter
mrossiter@fraserstryker.com
(402) 978-5336

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