January 27, 2020

Dear 

I am writing in response to your letter to President Trump concerning the tax consequences of a repayment by your husband’s business of a loan your husband incurred to start the business. You have asked why this loan payoff must be included in your and your husband’s joint income.

Under the law, gross income includes all income from whatever source derived, including gross income an individual derives from a business, and compensation he or she receives for providing services for the business. When a business pays a personal expense, such as a loan, of an individual who works for the business, that payment is economically the same as a payment by the business to the individual and a payment by the individual of the personal expense. Therefore, the individual generally has income to the extent of the payment by the business of the personal expense. For example, when an employer pays off the student loan of an employee, the employee has income to the extent of the payoff.

While we do not have all the facts of your situation, it appears from your letter that your husband’s personal loan was paid off by his business. As a result, the payoff is treated as a payment by the business to your husband and must be included in his gross income. Note that this deemed payment by the business to your husband is deductible by the business if it is an ordinary and necessary expense of operating the business.

I hope this information is helpful. If you need further assistance, please call or me at 

Sincerely,

Angella L. Warren
Branch Chief
(Income Tax & Accounting)