



HOUSE BILL 334: Temp Align PPP Treatment to Federal Treatment.

2021-2022 General Assembly

Committee:	House Commerce. If favorable, re-refer to Finance. If favorable, re-refer to Rules, Calendar, and Operations of the House	Date:	March 30, 2021
Introduced by:	Reps. Pickett, Saine	Prepared by:	Greg Roney Staff Attorney
Analysis of:	First Edition		

OVERVIEW: *The Proposed Committee Substitute (PCS) for House Bill 334 would allow individual and corporate taxpayers an income tax deduction for expenses paid using a loan forgiven under the Paycheck Protection Program.*

The PCS makes a technical correction to reference federal law on a date after the federal law allowed the deduction.

[As introduced, this bill was identical to S112, as introduced by Sens. Burgin, Corbin, Davis, which is currently in Senate Rules and Operations of the Senate.]

CURRENT LAW: Generally, federal tax law treats the forgiveness of a loan as income and denies a tax deduction for expenses paid by tax-exempt income (IRC §265). NC uses the federal definition of income as a starting point to calculate NC taxable income which incorporates federal tax law into the NC tax calculation.

The federal CARES Act created the Paycheck Protection Program (PPP) that made forgivable loans for certain expenses during the pandemic. The CARES Act changed the treatment of the forgiven loan from taxable to nontaxable. NC conformed to the exclusion of the forgiven PPP loan. At the time, the federal Internal Revenue Service (IRS) ruled the expenses paid by the PPP loan were not deductible (Rev. Rul. 2020-27). The federal Consolidated Appropriations Act, 2021, (passed December 21, 2020) made the expenses paid by the PPP loan deductible.

NC follows federal law as of May 1, 2020 (i.e., before the Consolidated Appropriations Act, 2021). Additionally, the Sections 1(c) and 1(f) of S.L. 2020-58 (House Bill 1080) require NC taxpayers to add the amount of any expense deducted under the Code to the extent that payment of the expense resulted in forgiveness of a loan covered under the Paycheck Protection Program.

BILL ANALYSIS: The PCS for House Bill 334 would, for the 2020 tax year only, conform to the federal treatment of expenses paid by PPP loans allowing a deduction and suspend the state-level addbacks for expenses paid by PPP loans.

EFFECTIVE DATE: The PCS for House Bill 334 is effective for the 2020 taxable year.

Jeffrey Hudson
Director



Legislative Analysis
Division
919-733-2578