



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

2021-2022 General Assembly

Committee:	House Finance. If favorable, re-refer to Rules, Calendar, and Operations of the House	Date:	April 13, 2021
Introduced by:	Reps. Pickett, Saine	Prepared by:	Greg Roney
Analysis of:	Second Edition		Staff Attorney

OVERVIEW: *House Bill 334 would, for the 2020 tax year only, allow individual and corporate taxpayers an income tax deduction for expenses paid using a loan forgiven under the Paycheck Protection Program (PPP).*

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 Revenue Laws follow federal tax law as of a set date, called the "Code reference date." The Code reference date is May 1, 2020 – which does not include federal law changes made by the Consolidated Appropriations Act, 2021. Therefore, NC has not conformed to the federal law change making the expenses paid by a PPP loan deductible.

Additionally, Sections 1(c) and 1(f) of S.L. 2020-58 (House Bill 1080) require NC taxpayers to addback 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: 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: House Bill 334 is effective for the 2020 taxable year and the state-level addbacks are reenacted for tax years after 2020.

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