



SENATE BILL 116: Putting North Carolina Back to Work Act.

2021-2022 General Assembly

Committee:	House Finance. If favorable, re-refer to Rules, Calendar, and Operations of the House	Date:	June 2, 2021
Introduced by:	Sens. Johnson, Sawyer, Britt	Prepared by:	Greg Roney Staff Attorney
Analysis of:	PCS to Second Edition S116-CSTMf-16		

OVERVIEW: *The Proposed Committee Substitute (PCS) for Senate Bill 116 would:*

- *Withdraw from the Federal Pandemic Unemployment Compensation program (FPUC) agreement that provides an additional \$300 per week to unemployment insurance claimants through September 6, 2021*
- *Allow individual and corporate taxpayers, for the 2020 and 2021 tax years only, an income tax deduction for expenses paid using a loan forgiven under the Paycheck Protection Program (PPP)*
- *Exclude \$10,200 of unemployment insurance benefits received in 2020 from State taxable income for taxpayers with an adjusted gross income below \$150,000*

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: The PCS for Senate Bill 116 would:

- *Withdraw from the Federal Pandemic Unemployment Compensation program (FPUC) agreement that provides an additional \$300 per week to unemployment insurance claimants through September 6, 2021. The payments would end 30 days after the PCS becomes law.*

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Senate PCS 116

Page 2

- Allow individual and corporate taxpayers, for the 2020 and 2021 tax years only, an income tax deduction for expenses paid using a loan forgiven under the Paycheck Protection Program (PPP)
- Exclude \$10,200 of unemployment insurance benefits received in 2020 from State taxable income for taxpayers with an adjusted gross income below \$150,000. The exclusion applies for the 2020 tax year only.