

# **Support North Carolina Small Businesses**

## **Support SB 104 & Deductibility of PPP Loan Expenses**

The Paycheck Protection Program (PPP) was enacted in the early days of the COVID-19 pandemic to serve as a lifeline for small businesses and their employees working diligently to weather the crisis and resulting economic downturn. The PPP was intended to assist these businesses in keeping their workforces employed and to reduce the burden on the increasingly stressed unemployment benefits system.

The program was established to serve as a tax-free grant through the forgiveness of PPP loans used to maintain employee and compensation levels and for other qualifying expenses. Likewise, a key component of the “tax-free grant” nature of the program is the ability of these small businesses to deduct from income tax the ordinary and necessary business expenses, including payroll expenses, that resulted in loan forgiveness.

Despite the clear intent of the CARES Act and after millions of dollars of PPP loans had been distributed, the Internal Revenue Service (IRS) initially took the position that expenses resulting in loan forgiveness under the PPP would not be deductible from federal income tax. At the time, North Carolina also amended its tax laws to provide similar tax treatment for state income tax purposes.

However, as this IRS position was completely contrary to the intent of the program and would have eliminated any benefit or enticement for an employer to participate, Congress acted at the end of 2020 to fully clarify the program and provide for the full deductibility of ordinary and necessary business expenses that were paid with a forgiven PPP loan.

**Senate Bill 104 – Align PPP Tax Treatment to Federal Treatment** has been introduced to *implement a similar clarification for state income tax purposes*. The bill recognizes that small businesses participated in the PPP to retain employees in the face of mandatory closures and dramatically reduced operations. They did so in reliance on the clear intent of the program that properly used PPP loans would be forgiven and essentially converted to tax-free grants.

The State of North Carolina also benefited from the federal PPP as the program successfully preserved jobs and reduced the burden on the state unemployment benefits program.

***The undersigned organizations strongly support SB 104 and all efforts to conform to the federal tax treatment providing for the full deductibility of PPP loan related expenses. Small businesses and their employees are still working to get through this crisis and without this change businesses throughout the state will face significant tax liabilities at a time they can least afford additional financial burdens.***

Catapult Employers Association  
Employers Coalition of North Carolina  
Independent Insurance Agents of North Carolina  
National Federation of Independent Business / NC  
NC Automobile Dealers Association  
NC Beer & Wine Wholesalers Association  
NC Craft Brewers Guild

NC Farm Bureau  
NC Forestry Association  
NC Home Builders Association  
NC Medical Society  
NC Petroleum & Convenience Marketers  
NC REALTORS®  
NC Restaurant and Lodging Association  
NC Retail Merchants Association