

## Long Awaited Change to NC PPP Expense Deduction

On November 18, 2021, North Carolina (NC) Governor Cooper signed into law the changes all NC businesses who received PPP loans have been anticipating. Paycheck Protection Program (PPP) expenses are now deductible on NC returns. Unfortunately, those law changes came after 2020 returns have been filed for most taxpayers. NC Department of Revenue (NCDOR) followed up with their initial guidance on December 10, 2021 - [NC Notice on Impact of Session Law 2021-180 on North Carolina Individual and Corporate Income Tax Returns](#).

### **What this means for you:**

Most pass-through entities (S-Corporations, Partnerships, etc.) were required to include those expenses as an addback to NC income on the entity K-1.

As such, the K-1 recipients had an addition to income on their individual returns.

If your business received a PPP loan and included the PPP expenses as an addback to NC, the NC Department of Revenue requires an individual to file an amended NC individual return to receive a refund of any taxes related to the payment of inclusion of PPP expenses.

NCDOR cannot automatically adjust these payments of taxes and therefore, requires an amended return. The NCDOR does not have the authority to give permission for pass-through entities to not file amended returns, but they have said the following:

**For purposes of the delayed PPP decoupling adjustment, you are not required to submit an amended Schedule K-1 if the original NC tax return clearly reflects an addition to federal income for expenses deducted under a forgiven PPP loan.**

Therefore, the NCDOR appears to be giving taxpayers a break in amending all the business returns; however, it will be up to each business and their tax preparer to determine the best avenue for their returns.

Other businesses such as C-Corporations were required to include the expenses as an addback to NC income. Those taxpayers will be required to file amended corporate returns to receive a refund of the taxes paid.

We will be advising our clients on the procedures for filing their amended returns in January.

### **Other Changes:**

Other items included in the law were the exclusion from NC income of certain Economic Injury Disaster Loan (EIDL) grants, targeted EIDL advances, Small Business Administration loan payments, or other types of income specifically excluded from federal income.

In addition, the law provides a provision making the portion of unemployment benefits up to \$10,200 excluded under federal law includable in NC income.