

PPP Loans and State Treatment

Although short, this email article is really about more than just the PPP loans. The Consolidated Appropriations Act 2021 (Act), signed into law December 27, 2020, made various law changes including some that affect 2020 returns, such as:

- 1) EIDL grants and loan forgiveness are nontaxable. And the expenses paid with these funds are deductible.
- 2) PPP loan forgiveness was nontaxable under prior law, but the Act now states taxpayers are allowed to deduct expenses even though they are connected to nontaxable income.
- 3) The Earned Income Tax Credit can be computed using the prior year's earned income if it was higher than the current year's earned income.

Each individual state has its own taxation rules. We have heard that several states did not follow this Federal treatment (i.e., decoupling) while other states do follow Federal. And, no, we do not have list of which states followed and which states did not follow.

Wisconsin is a state that did not follow Federal, partly because Wisconsin likes to look at each change and decide which ones to follow. Also, with the Federal law changed so late in the year Wisconsin legislature hadn't met to discuss the changes. The Wisconsin form directions have stated adjustments need to be made due to decoupling and not following Federal. On February 18, 2021, the Wisconsin governor signed into law Act 1 and Act 2, which retroactively adopted many of the Federal provisions including the ones mentioned above. For this reason, anyone who has prepared a Wisconsin return based on its decoupling may need to amend the return to follow the new laws found in Act 1 and Act 2.

Again, every state has its own taxation laws. Therefore, tax professionals need to keep up on what is happened at a state level, including late changes such as Wisconsin's.

This text has been shared courtesy of: David & Mary Mellem, EAs & Ashwaubenon Tax Professionals, 920-496-1065 (920-496-9111).

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