Federal and WI Tax Treatment of PPP Loans, EIDL Advances, and CARES Act State Grants

Katie Wantoch, UW-Madison Division of Extension Agriculture Educator, Dunn County

On Monday, December 21, 2020, Congress passed the Consolidated Appropriations Act, 2021 (CAA) which contained a $900 billion COVID-19 relief package that reauthorized and modified the Paycheck Protection Program (PPP). The PPP, implemented by section 1102 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, expanded the Small Business Administration (SBA) 7(a) loan program to provide up to $349 billion in 100 percent federally-guaranteed loans to small businesses and eligible self-employed individuals impacted by COVID-19.

Consolidated Appropriations Act clarifies tax treatment of PPP loans

In section 276 of the CAA's COVID-Related Tax Relief Act of 2020 (the "Tax Relief Act"), Congress explicitly overrode the Treasury guidance by providing that "no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied by reason of a forgiven PPP loan's exclusion from gross income." The original CARES Act provided that the proceeds of PPP loans, if forgiven, are excluded from the gross income of the borrower. However, U.S. Treasury guidance (IRS Notice 2020-32 and Rev. Rul. 2020-27 directed that expenses paid with loan proceeds "reasonably expected to be forgiven" were not deductible. This rule rendered the exclusion from gross income unhelpful for many businesses because the elimination of the deduction offset the benefit of the income exclusion.

The CAA states that while some states may treat forgiven loan proceeds and their corresponding deductions differently, PPP loan proceeds will not be reported on a Form 1099 and will not be reported on the borrower's federal income tax return. Businesses that paid otherwise deductible expenses with PPP loan proceeds will continue to deduct those expenses—most notably payroll costs—on their tax returns.

Economic Injury Disaster Loans

In 2020, some farmers also received Economic Injury Disaster Loans (EIDL) from the SBA. Although these loans were not forgivable like PPP loans, the CARES Act allowed those who applied for such a loan (whether they actually took out the loan) to receive an EIDL advance (grant). The SBA limited the grant amount to $1,000 per employee, up to a total of $10,000, for eligible businesses. In mid-2020, Congress specifically granted permission for farmers to receive EIDL loans and EIDL advances.

Section 278 of the Tax Relief Act reports EIDL advances are excluded from gross income and corresponding expenses remain deductible. Additionally, PPP loan forgiveness is not reduced in the amount of the EIDL Advance.

Wisconsin Adopts Federal Tax Laws

Wisconsin law does follow the federal law with respect to the treatment of original and subsequent PPP loans and expenses for the tax years beginning in 2020 and beyond. On Feb.. 18, 2021, Wisconsin lawmakers and Governor Evers signed a tax bill (Assembly Bill 2). Taxpayers may exclude from income the forgiveness of debt on PPP loan proceeds and deduct expenses paid with PPP loan proceeds that are otherwise deductible.

Wisconsin law also follows the federal law regarding the tax treatment of income and expenses relating to certain federal grants, loans, and subsidies. Taxpayers may exclude from income emergency grants of economic injury disaster loans (EIDL) and targeted EIDL advances.

CARES Act State Grants

Many farmers may have received other grants funded by CARES Act money provided to their state. In Wisconsin, these programs included the Wisconsin Farm Support Program and the We're All In Small Business Grant. These grants are not excluded from gross income under federal law and should be reported as regular farm income on the federal income tax return's Schedule F.

Wisconsin agencies reported these grants to the Internal Revenue Service and mailed farmers a copy of their Form 1099-G. s. Some of these grants may be excluded from Wisconsin taxable income. Income received from the State of Wisconsin under the Farm Support Program is exempt from Wisconsin income tax. Also, expenses paid directly or indirectly with these funds that are otherwise deductible for Wisconsin income tax purposes remain deductible even though receipt of the funds are not taxable for Wisconsin income tax purposes. (Wisconsin Tax Bulleting February 2021.

Iowa State University's Center for Agricultural Law and Taxation (CALT) has provided guidance for this article.