



Hello everyone, I hope you and your family are staying safe and doing well.

I wanted to send out an update on new legislation that passed in North Carolina as well as some new insights we have gained into the Paycheck Protection Program (PPP).

Individual Taxation

On May 4th, Governor Cooper Signed the COVID-19 Relief Bill into Law. Among the provisions that were passed, **NC has agreed to waive the interest on tax payments normally due in April.** Click [here](#) to read in more detail.

Paycheck Protection Program

Taxation of Forgiveness

When the PPP was first introduced it was understood that the portion of the loan that is forgiven would not be taxable income to the business owner. The IRS has since released guidance ([Notice 2020-32](#)) stating that a taxpayer that receives a loan through the PPP is not permitted to deduct expenses that were reimbursed by a PPP loan that was forgiven. This in effect makes the proceeds taxable.

Please make sure you take this additional income into consideration for 2020 taxes. For some it could be substantial. For example, let's assume your combined Federal and State tax rate is 25%. **If you received \$100,000 in PPP funds and all \$100,000 was forgiven you could be looking at a tax bill of \$25,000. The problem is, you had to spend the entire \$100,000 to get the forgiveness and you may not have the \$25,000 to pay the tax bill.** I believe they are working on legislation to change this, but for now those are the rules.

Employees

One of the issues that a lot of small business owners who received the PPP are dealing with is how to bring back their employees and pay them so they can qualify for the forgiveness. The biggest issue has been that many laid off employees have started receiving enhanced unemployment and are now making more than they were at their job. This has made it very difficult for many business owners to bring their employees back, which has jeopardized their ability to get the PPP loans forgiven.

The SBA addressed this issue in their [FAQ's](#) #40.

40. Question: Will a borrower's PPP loan forgiveness amount (pursuant to section 1106 of the CARES Act and SBA's implementing rules and guidance) be reduced if the borrower laid off an employee, offered to rehire the same employee, but the

employee declined the offer?

Answer: **No.** As an exercise of the Administrator's and the Secretary's authority under Section 1106(d)(6) of the CARES Act to prescribe regulations granting de minimis exemptions from the Act's limits on loan forgiveness, SBA and Treasury intend to issue an interim final rule excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the CARES Act's loan forgiveness reduction calculation. **The interim final rule will specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee's rejection of that offer must be documented by the borrower. Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.**

I am not exactly sure how this will effect the forgiveness calculation. From the FAQ it sounds as though they are working on a detailed interim final rule that has yet to be released. I will let you know when I find out more.

Let me know if you have any questions, we are here to help.

Thank you!!

Raymond E Halstead, CPA
REH CPA, PLLC
rehcpas.com
704-662-8249

223 Williamson Rd, Suite 104
Mooresville, NC 28117

See what's happening on our social sites

