

# State Tax Treatment of Paycheck Protection Program Forgiven Loans

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## Issue

Are the Paycheck Protection Program's (PPP) forgiven loans subject to Connecticut income tax?

## PPP Forgiven Loans

The Small Business Administration's (SBA) [Paycheck Protection Program](#), created under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, provides loans to help eligible small businesses keep their workers on the payroll during the COVID-19 crisis ([P.L. 116-136](#), § 1102). Businesses may receive up to 2.5 times their average monthly payroll, or \$10 million, whichever is less. SBA will forgive the loans if businesses maintain their workforce and salary levels for eight weeks and use the funds for payroll costs, mortgages, rent, and utilities, subject to certain limitations. The loan forgiveness amount is reduced if the business reduces its workforce or wages below specified levels.

### *PPP Loan Activity in Connecticut*

Since the program's start, SBA participating lenders have approved a total of \$6.88 billion in PPP loans to 53,064 eligible small businesses in Connecticut. Nearly \$4.15 billion in loans were approved in [round one](#) of the program (through April 16), while \$2.73 billion in loans have been approved in [round two](#) (from April 27 through May 8).

Although cancelled or discharged debt is generally included in a taxpayer's gross income for federal income tax purposes ([26 USC 61](#)(a)(11)), the CARES Act excludes the forgiven amount of PPP loans from an eligible recipient's gross income, thus exempting it from federal income tax ([P.L. 116-136](#), § 1106(i)). This exemption flows through for Connecticut state income tax purposes because of the

linkage between the federal and state income tax. (It similarly flows through for purposes of Connecticut's corporation business and pass-through entity tax.)

The starting point for calculating Connecticut's income tax is federal adjusted gross income (AGI). Federal AGI is a taxpayer's gross income, adjusted by adding and subtracting specified income and expenses. Unless Connecticut requires an addition for it, any income not included in federal AGI is not subject to Connecticut income tax. There is no provision in existing state law that requires taxpayers to add back these forgiven loans to arrive at Connecticut AGI. Thus, these forgiven loans are not subject to Connecticut income tax.

RP:kl