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Client Alert: North Carolina Businesses Likely Need to File an Amended Tax Return

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As tax season is upon us, a quick reminder that North Carolina businesses that spent Small Business Administration (SBA) Paycheck Protection Program (PPP) loan proceeds in 2020 will likely need to file an amended North Carolina income tax return.

History of PPP Loan Proceeds under North Carolina Law

Back in June 2020, the North Carolina General Assembly passed S.L. 2020-58, which excluded forgiven PPP loan proceeds from North Carolina taxable income. For Federal tax purposes, deductible expenses paid with forgiven PPP loan proceeds were deductible on your Federal tax return. However, the same deductible expenses paid with forgiven PPP loan proceeds remained non-deductible on your North Carolina state tax return.

This remained the case through 2020 and most of 2021for North Carolina businesses. Finally, in November 2021, the North Carolina General Assembly passed S.L. 2021-180, which provided that deductible expenses paid with forgiven PPP loan proceeds are deductible for years 2020, 2021, and 2022 for North Carolina state tax purposes.

Necessity of Filing an Amended Return

Since S.L. 2021-180 was not passed until November 2021, most businesses included deductible expenses paid with forgiven PPP loan proceeds in taxable income on their 2020 North Carolina income tax returns. The North Carolina Department of Revenue has issued guidance stating it will neither automatically adjust a taxpayer's North Carolina tax return, nor automatically refund any overpayment resulting from the law change.

Businesses that paid deductible expenses with forgiven PPP loan proceeds will need to file an amended North Carolina tax return for 2020 to reduce their taxable income according to the new law (and possibly receive a refund). Any businesses in this situation should speak with their accountant about filing an amended 2020 North Carolina income tax return.

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