Governor Murphy, Treasurer Muoio Announce Plan to Follow Federal Government's Lead to Enhance the Benefits of Paycheck Protection Program Loans

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For 2020 Tax Season, PPP Loans Will Be Tax Exempt and Expenses Will Be Tax Deductible

(TRENTON) – In an effort to aid small businesses impacted by the COVID-19 pandemic, Governor Phil Murphy and State Treasurer Elizabeth Maher Muoio announced today that New Jersey will follow the federal government's lead in allowing Paycheck Protection Program (PPP) loans to be tax exempt at the state level and enable recipients to deduct business expenses that were paid with the tax-exempt loan proceeds, thereby enhancing the tax benefits of the loans.

"This decision is designed to help already beleaguered small businesses, which are the majority of recipients of these loans," **said Governor Murphy.** "It's no secret that New Jersey has been one of the hardest hit states by COVID-19 and our small businesses have shouldered the brunt of it. PPP loans helped many stay afloat and this move will provide added benefit to help them weather this storm."

The PPP was established by the federal CARES Act (Coronavirus Aid, Relief, and Economic Security Act) last year in response to the economic impact of COVID-19 in order to help small businesses keep employees on their payroll during the pandemic.

Of the 155,851 loans totaling $17.3 billion that New Jersey businesses received, the vast majority were for smaller businesses:

- 133,961 loans totaling $4.6 billion were for amounts under $150,000; and
- 19,066 loans totaling $6.6 billion were approved for amounts between $150,000 and $1 million.

"PPP loans have played a critical role in helping Main Street stay afloat and keeping residents employed," **said State Treasurer Elizabeth Maher Muoio.** "Given that the vast majority of these loan recipients are smaller businesses, the decision to make these loans tax exempt and the proceeds tax deductible was a logical one as we continue to grapple with COVID's prolonged impact."

Under the federal PPP, some or all of the loan may be forgiven if certain conditions are met. While federal law generally considers forgiven loans to be taxable income, the "Consolidated Appropriations Act, 2021," which reauthorized the program, clarified that the amount of a PPP loan which is forgiven may be excluded from income for federal tax purposes and that expenses covered by PPP loans may be deducted from income for federal tax purposes.

New Jersey can follow the federal government's treatment without enabling legislation under existing authority. As a result, for the 2020 tax season, related expenses paid for with PPP loans will be deductible for both Gross Income Tax (GIT) and Corporation Business Tax (CBT) purposes and forgiven loans will be excluded from being subject to either tax.

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The decision was welcomed by Senator Troy Singleton and Assembly Majority Leader Louis Greenwald who have championed this move through legislation, along with Senate Budget Committee Chairman Paul Sarlo, who also welcomed the changes.

“Small businesses across the state have been pummeled over the past year. Many of our favorite family establishments have already closed, and numerous others are at risk of shutting down,” **said Senator Troy Singleton (D-Burlington).** “For many, the federal PPP loans were a godsend that helped them stay open, which is why I sponsored legislation that would make the PPP loans non-taxable. I am glad New Jersey is following the federal government's lead to allow businesses to deduct forgiven loans from state taxes. This will provide further relief to businesses around the Garden State.”

“As we continue to battle the economic and public health crises caused by COVID-19, it is critically important that we ensure forgiven Paycheck Protection Program (PPP) loans will not be subject to the State taxation,” said **Assembly Majority Leader Louis Greenwald (D-Camden, Burlington)**. “I applaud the Governor’s decision to have the State follow the federal government’s decision to allow PPP loans to remain non-taxable. We must do all we can to help those businesses struggling as a result of the pandemic and position them to thrive when the public health crisis subsides.”

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“This will help ensure that the receipt and forgiveness of coronavirus assistance through the PPP does not result in surprise tax bills that small businesses can’t afford,” **said Senator Paul Sarlo, Chairman of the Senate Budget and Appropriations Committee.** “That’s not what they signed onto, not what they expected and not what they planned for. The goal of the CARES Act funding is to help these businesses to survive the economic hardships of the shutdown, and Congress’s intention was to allow the loans to be forgiven with no tax consequences. They complied with the terms of the loans. Many businesses are struggling to survive and can’t afford additional expenses. This will help them get through the crisis and work towards profitability.”

Governor Phil Murphy

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