

Great News – PPP Forgiveness Not Taxable for PA; State/ Local Update

Pennsylvania – NOT TAXABLE

On Friday evening, the PICPA reported that Governor Wolf signed legislation passed that same day ([Senate Bill 109](#), now Act 1 of 2021) which provides COVID-19 relief to Pennsylvania small businesses, and exempts income received from the federal PPP from taxation under Pennsylvania's Personal Income Tax (PIT.) The law also provides that Pennsylvania deductions will be allowed for otherwise deductible payments even if paid for with forgiven PPP proceeds.

For C corporations, forgiveness was already exempt because the corporate net income tax conforms to the federal tax base. However, pass-through entities are covered under PIT which does not conform to federal tax, so this legislation is welcome news for the 80% of businesses in PA that pay the PIT.

The law also provides that federal stimulus/economic impact payments received by an individual will not be taxable for Pennsylvania purposes.

Philadelphia – NOT TAXABLE

Philadelphia issued [guidance](#) on February 1, 2021 that Philadelphia will conform to the federal rules.

- PPP forgiveness income will be excluded from the net income portion of the BIRT.
- Deductions of expenses reimbursed by forgiven PPP loans will be allowed for the net income portion of the BIRT.
- The amount of a PPP loan and any amount of the loan that is forgiven is excluded from a taxpayer's receipts for the BIRT Gross Receipts Tax.
- For NPT, consistent with the BIRT treatment, Philadelphia will exclude PPP forgiveness from gross income and will allow business deductions for expenses reimbursed by forgiven PPP loans.

Other Neighboring States

New Jersey - PENDING

- Legislation is pending ([S3234/A5149](#)) which would exclude forgiven PPP loans from NJ taxable income and allow deduction of business expenses related to PPP forgiveness. The bill passed the Senate on January 28 then went to the Assembly Appropriations Committee.

New York – NOT TAXABLE

- New York State is following the federal treatment for both personal income and corporation taxes. PPP forgiveness is excluded from income, and PPP expenses are deductible. [Click here for more guidance.](#)

Maryland – NO SPECIFIC GUIDANCE

- Maryland taxable income is defined as federal taxable income after statutory adjustments, modifications, and applicable apportionment. Specific guidance has not been issued by Maryland to either follow or to decouple from the federal treatment of PPP forgiveness income and deductibility of related expenses. Absent such guidance, presumably no Maryland adjustment would be required to the federal taxable income base.

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