DEPARTMENT OF REVENUE

Paycheck Protection Program Loan Exclusion
Individual Income Tax
Corporate Franchise Tax

	FY 2022	FY 2023	FY 2024	FY 2025
		($000s)		
Individual Income Tax	($191,500)	($18,200)	($14,400)	($9,900)
Interaction: NOL modifications	($36,100)	$7,400	$3,200	$3,200
Corporate Franchise Tax	($183,500)	($15,900)	($12,200)	($9,200)
General Fund	($411,100)	($26,700)	($23,400)	($15,900)

Effective for loans forgiven under the Paycheck Protection Program.

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), enacted on March 27, 2020, established the Paycheck Protection Program (PPP) to provide low-interest loans to small businesses with less than 500 employees to assist with payroll, mortgage interest, rent, and utilities. The program was created and modified by the following Acts:

- The CARES Act appropriated up to $350 billion for low-interest loans.
- The Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139), enacted on April 24, 2020, appropriated an additional $310 billion to the Paycheck Protection Program.
- The Consolidated Appropriations Act, 2021 (CAA 2021) (P.L 116-260), enacted on December 27, 2020, appropriated an additional $284 billion to the program and revised the criteria for loan forgiveness.

The loans are to be spent over an 8-week to 24-week period for qualified business expenses. The total loan covers up to 2.25 times the business's average monthly costs up to $10 million. After the covered period, business can contact the loan provider to seek possible loan forgiveness. Loans are eligible for forgiveness if they meet certain requirements and restrictions, revised by the CAA 2021:

1. The loan must be spent on payroll costs, mortgage interest, rent, utilities, or other specified expenses. No more than 40% of the forgiven amount may be used for non-payroll costs.
2. Full-time employment and salary levels return to their previous levels within a specified time.
3. The amount forgiven is reduced if there is a decrease in the number of full-time employees or if there is a reduction of more than 25% of wages and salaries for any employee.

The amount of the loan that is forgiven is not included in gross income. The CAA 2021 clarified that expenses paid with forgiven loans may be deducted from income.

Minnesota has not adopted the exclusion for forgiven PPP loans. Allowing the exclusion would reduce taxable income for affected taxpayers, resulting in a reduction in individual income tax and corporate franchise tax revenue.

- The first and second round of PPP loans ended on August 8, 2020. At that time, about 5,212,100 loans totaling $525.0 billion had been approved by the Small Business Administration (SBA), as reported in the Paycheck Protection Program Report. Of this total, about 102,400 loans totaling $11.3 billion were approved in Minnesota.

- The CAA 2021 appropriated an additional $284 billion for PPP loans. Based on the loans issued so far, Minnesota businesses are expected to receive an additional $6.1 billion in loans in tax year 2021.
- Based on the distribution and magnitude of the loans, it is assumed 80% of the loans will be forgiven.
- C corporations account for 39.5% of PPP loans in Minnesota, according to information obtained from the Small Business Administration. Pass-through entities, estates, trusts, and individuals account for 51.9%. Nonprofit organizations account for 8.6%.
- Nonprofits are not included in the estimate because their operating income is already excluded from tax.
- The estimate was reduced by 68% to exclude businesses without taxable income in tax year 2020, based on taxable income in 2018, adjusted for expected losses in 2020.
- The SBA data for Minnesota loan recipients does not include out-of-state businesses with sales into Minnesota. The size of that impact is unknown but is assumed to be offset by out-of-state sales of businesses located in Minnesota.
- Amounts that cannot be deducted immediately may be carried forward as net operating losses (NOLs) to offset income in future years. Between 2.7% and 6.3% of NOLs are assumed to be claimed each year over the forecast period.
- The CARES Act removed the 80% limitation on NOLs and allowed losses to be carried back for up to five years. Adopting those provisions when combined with the PPP loan exclusion would result in an additional immediate impact in FY 2022. There will be a revenue gain beginning in FY 2023 as the pool of NOLs will be smaller in future years.
- A marginal rate of 8.0% was assumed for individuals and pass-through entities. A marginal rate of 9.8% was applied to corporations.
- Corporate tax impacts are allocated 30% / 70% to fiscal years. Income tax impacts were allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
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