

The Coronavirus Aid, Relief, & Economic Security Act, more commonly known as the CARES Act, is a law that was established to help individuals who were financially affected by the COVID-19 pandemic in the United States. Below is information on CARES Act relief payments and how they are treated in Pennsylvania.

ANNUITY FUNDS FROM LABORERS' UNIONS

The taxability of an Annuity Fund distribution in 2020 from a Laborers' Union would not be affected under the CARES Act. Whether PA tax is applicable will depend on the specifics about the distribution and fund.

CORONAVIRUS-RELATED DISTRIBUTIONS (CRD)

Coronavirus-related distributions on retirement accounts allow taxpayers to spread their federal income tax burden on the distribution over three years. If the amount is paid back within three years, taxpayers may request a refund of federal taxes paid on the withdrawal.

Pennsylvania does not follow the federal provision on this. If the withdrawal meets the age or years of service requirement, then it is not subject to PA income tax. Otherwise, early distributions from retirement accounts are subject to tax to the extent that they were not already subject to tax at the time the money was contributed to the account.

In the event someone takes an early distribution from a retirement plan that would be subject to tax and subsequently pays it back, the department would not refund tax paid on that amount. Any reinvestment would be considered basis and wouldn't be taxable upon later distribution.

COVID DISASTER RELIEF PAYMENTS

COVID-19 disaster relief payments set up by employers or charities to be paid to employees do not constitute compensation for federal income tax purposes under IRC 139(a).

The department does not follow IRC § 139. The taxability of these payments would be dependent on the nature of the payments and would have to be reviewed on a case by case basis.

ECONOMIC IMPACT PAYMENTS (EIP) FEDERAL STIMULUS CHECK

The stimulus checks, otherwise known as economic impact payments, being distributed by the federal government are not subject to Pennsylvania personal income tax. The payments are considered a rebate that is non-taxable in Pennsylvania. Additionally, Act 1 of 2021 (SB 109) that was signed by into law by the Governor specifically states the payments are not taxable under Pennsylvania's Tax Reform Code.

ECONOMIC INJURY DISASTER LOANS (EIDL)

The Economic Injury Disaster Loan (EIDL) program provides for an "advance" of up to \$10,000 within 3 days of the loan application even before the loan is approved. Section 1110(e)(5) of the CARES Act provides that the EIDL "advance" does not have to be repaid (even if the loan is subsequently denied). Because the "advance" never has to be repaid (i.e., there are no

conditions that have to be met to have the advance on the loan forgiven or discharged), the department will treat the "advance" as a grant which is not subject to tax.

GRANTS FROM LOCALITIES

Grants that businesses received from their localities due to COVID-19, that were not from the EIDL program, are not subject to PA income tax.

PAYCHECK PROTECTION PROGRAM (PPP)

Act 1 of 2021 (SB 109) that was signed into law by the Governor on February 5, 2021 states that Paycheck Protection Plan (PPP) loans used to pay business expenses during the COVID-19 pandemic that are subsequently forgiven by the lender are not taxable income for Pennsylvania personal income tax purposes. The bill also states that for PA personal income tax purposes no deduction may be disallowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan.

For corporate net income tax, Pennsylvania taxable income is based upon federal taxable income. Pennsylvania law does not include an add back to or deduction from federal taxable income for forgiveness of a Paycheck Protection Plan loan.

1099-C, CANCELLATION OF DEBT

The IRS has clarified that lenders should not file Forms 1099-C to report the amount of qualifying forgiveness of covered loans made under the Paycheck Protection Program administered by the Small Business Association. This is not required to be filed with the PA Department of Revenue as well.

PROVIDER RELIEF FUND (PRF)

The federal government has allocated \$175 billion in payments to be distributed through the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 pandemic. The PRF distributes payments to healthcare providers to cover healthcare-related expenses or lost revenue due to COVID-19. The payments are nontaxable as grants for PIT Purposes.

This includes Health Resources and Service Administration (HRSA) claims reimbursements for uninsured patients.

STUDENT LOAN DEBT

The CARES Act provides that certain student loan repayments made by an employer up to \$5,250 will not be subject to Federal Income Tax. However, these repayments are considered taxable for PIT purposes. The amount of the student loan debt repayment made by the employer on behalf of an employee should be included as compensation on the employee's PA-40 return.