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April 28, 2020

The Honorable Karen Fann
Arizona State Senate
1700 W. Washington Street
Phoenix, Arizona 85007

RE: Payroll Protection Program Loan Forgiveness – Arizona Tax Implication

Dear President Fann,

As you know, Congress passed the Coronavirus Aid Relief and Economic Security (CARES) Act on March 27, 2020. Among the provisions of the CARES Act is the Payroll Protection Program (PPP) which allows for businesses to apply for loans in order to continue operations during the pandemic. Many Arizona businesses were able to take advantage of the PPP and obtain loans during the crisis.

Under normal circumstances, forgiven debt is considered taxable income by the Internal Revenue Code (IRC). However, the CARES Act explicitly excludes loans forgiven under the PPP from taxable federal income. While the federal government made the determination not to tax forgiven PPP loans, many states must act legislatively in order to do the same.

In Arizona, the annual conformity legislation, which aligns Arizona's tax code with the IRC, passed the legislature on March 17, 2020. Since the CARES Act went into law after Arizona's income tax conformity legislation passed, the exemption at the federal level for PPP loans is not in effect for our state income tax.

While the Society of CPAs does not take a position on the taxability of the PPP loans in Arizona, we wanted to provide you with the information on the implications of the IRC and CARES Act for Arizona businesses that received these loans. Should the legislature determine that forgiven PPP loans should not be taxable in Arizona, legislation to that effect will be necessary.

If the legislature determines such legislation is prudent, the ASCPA will gladly provide input to ensure the mechanics of the bill achieve the intended outcome.

Thank you for your continued service and dedication to Arizona.

In appreciation,

Cindie Hubiak, CPA, CGMA
President & CEO

CC: John Baumer, ASCPA Director of Government Relations
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