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## TAX INFORMATION RELEASE NO. 2020-02 (REVISED)

RE: Hawaii Tax Treatment of Various Federal COVID-19 Relief Programs and Payments

The purpose of this Tax Information Release (TIR) is to provide information about Hawaii tax treatment of the various COVID-19 relief programs and payments that the federal government has provided under the Coronavirus Aid, Relief, and Economic Security Act<sup>1</sup> (CARES Act).

### FEDERAL INCOME TAX TREATMENT

**Economic Impact Payments:** Economic Impact Payments are not considered gross income and are therefore not subject to federal income tax. Section 2201 of the CARES Act provides payments to qualifying individual taxpayers of up to \$2,400, depending on adjusted gross income and filing status. Qualifying taxpayers may also receive \$500 per qualifying child.

**Unemployment Compensation:** Under existing law, unemployment compensation is included in gross income. The CARES Act does not provide for any special tax treatment for these amounts, thus, payments received under additional unemployment compensation are subject to federal income tax.

- Pandemic Unemployment Assistance (PUA) under Section 2102 of the CARES Act provides up to \$648 per week for those who ordinarily may not be eligible for unemployment benefits, such as business owners, self-employed persons, independent contractors, and others, that are out of business or whose services are significantly reduced as a direct result of the COVID-19 pandemic.
- Federal Pandemic Unemployment Compensation (FPUC) under Section 2104 of the CARES Act also provides an additional \$600 per week of unemployment compensation for employees who are eligible for unemployment benefits.

#### Small Business Loans:

- The Paycheck Protection Program (PPP) under Section 1102 of the CARES Act provides forgivable loans to small businesses. The receipt of the loan funds, including PPP funds, are not subject to income tax. Regarding forgiveness of the PPP loans, Section 1106(i) of the CARES Act deems forgiven PPP debt, that would otherwise be included in gross income, to be excluded from gross income. Thus, loans forgiven under the PPP are not subject to federal income tax.
- Economic Injury Disaster Loan Emergency Advances (EIDL Grant) are loan advances of up to \$10,000 made to small businesses under Section 1110 of the CARES Act. The EIDL Grant does not need to be repaid. The CARES Act does not provide any special tax treatment for these amounts, thus, the EIDL Grant is included in gross income and is subject to federal income tax.

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<sup>1</sup> Coronavirus Aid, Relief, and Economic Security Act. Pub. L. No. 116-136.

- Economic Injury Disaster Loans (EIDL) provided under Section 7 of the Small Business Act<sup>2</sup> allows for loans up to \$2,000,000 in some cases. The receipt of the loan funds, including EIDL funds, are not subject to federal income tax. The CARES Act does not provide any special tax treatment for EIDLs.

### **HAWAII INCOME TAX TREATMENT**

Under existing law, Hawaii's income tax treatment is identical to the federal income tax treatment in most cases. Therefore, the Economic Impact Payments and loan proceeds from the PPP and EIDL programs are not subject to Hawaii income tax. Payments under the PUA and FPUC programs are subject to Hawaii income tax.

Regarding the forgiveness of PPP loans, in general the forgiveness of a loan or cancellation of debt results in the amount that is forgiven being included in gross income. As discussed above, the CARES Act provides that forgiven PPP loan proceeds are not included in gross income for federal income tax purposes. For this special treatment to apply for Hawaii income tax purposes, the treatment must be adopted by the enactment of a Hawaii law. Thus, under current law, forgiven PPP loans are subject to Hawaii income tax. However, the Department of Taxation intends to recommend to the Hawaii State Legislature that Hawaii conform to the federal treatment of PPP loan forgiveness.

### **GENERAL EXCISE TAX TREATMENT**

Under existing law, unemployment compensation paid to employees and the receipt of loan funds, such as funds from PPP loans and EIDLs, are not subject to general excise tax (GET).

The general rule is that amounts received by a business that replace income are subject to GET. Thus, grants or other payments that replace or supplement income are normally subject to GET. However, in light of the severity of the economic impact of the COVID-19 pandemic, GET will not be imposed on payments received under PUA, loan amounts forgiven under PPP, and EIDL Grants. These amounts will be treated as exclusions from gross receipts and should not be reported on GET returns.

A table summarizing State and federal tax treatment of CARES Act funds can be found at the end of this release. Additional information is available by calling the Technical Section at (808) 587-1577, or by email at [tax.technical.section@hawaii.gov](mailto:tax.technical.section@hawaii.gov).

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**Summary of State and Federal Tax Treatment of CARES Act Funds**

Description		Federal Income Tax	State Income Tax	State GE Tax
<b>INDIVIDUAL INCOME PROGRAMS</b>				
Economic Impact Payment	Payments made to qualifying individual taxpayers of up to \$2,400, depending on adjusted gross income and filing status. Qualifying taxpayers may also receive \$500 per qualifying child.	No	No	No
Pandemic Unemployment Assistance (PUA)	Provides up to \$648 per week for those who ordinarily may not be eligible for unemployment benefits, such as business owners, self-employed persons, independent contractors, and others, that are out of business or whose services are significantly reduced as a direct result of the COVID-19 pandemic.	Yes	Yes	No
Federal Pandemic Unemployment Compensation (FPUC)	Additional \$600 per week of unemployment compensation for employees who are eligible for unemployment benefits.	Yes	Yes	No
<b>SMALL BUSINESS PROGRAMS</b>				
Paycheck Protection Program (PPP)	Forgivable loans to small businesses.	No	No*	No
Economic Injury Disaster Loan Emergency Advances (EIDL Grant)	Loan advances of up to \$10,000 made to small businesses, which does not need to be repaid.	Yes	Yes	No
Economic Injury Disaster Loans (EIDL)	Loans up to \$2,000,000.	No	No	No

\*DOTAX intended recommendation to Hawaii State Legislature.