



**Testimony in Support of HB6121 Budget Article 2 and in Opposition to HB6170
Relating to the Paycheck Protection Program
House Committee on Finance
April 7, 2021**

The **Economic Progress Institute** supports the Governor's proposal in Article 2 of HB6121 (the Supplemental Budget for FY2021) to decouple partially from federal tax rules for the Paycheck Protection Program, and we think the proposal could be made even stronger. For the same reasons, we oppose HB6170 which would keep Rhode Island fully coupled to the federal rules.

We believe that the tax issues involved in the federal policy have been misunderstood and that remaining coupled to federal policy will not help those Rhode Island businesses struggling the most.

This is Not a Tax on PPP Loans

Under traditional tax policy, a forgiven loan is indeed not counted as taxable income—but traditional tax policy also does not count as eligible those business expenses paid for with such forgiven loans. **It's as if you took a business trip for work, your employer reimbursed you for all your expenses, and then you claimed the expenses for deductions on your taxes. Or, as if you had surgery, your insurer covered 100% of expenses, and then you claimed the expenses for deductions.** This, in essence, is what the federal rule allows.

Traditional and good tax policy would be to count *both* income and deductions or to count *neither*—and let it be a wash. The businesses still benefitted from the program as designed—they paid their workers and for other expenses and had the loans forgiven. Article 2 tries to make it a wash—partially and of course only for the state portion of this (the larger, federal bonus remains untouched). To decouple would therefore not be imposing a tax, but rather canceling out an extra bonus, while **preserving state revenues—between \$60 and \$133 million.**

To make the tax implications even more clear, **legislators might consider amending Article 2 to disallow the deductions, while continuing to *not* count the forgiven loans as income.** Clearly, to do this would not be to impose a tax on businesses, and Article 2 essentially accomplishes the same thing in a different manner.

This Does Not Help the Businesses Struggling the Most

Despite good intentions all around, remaining fully coupled to the federal rule will not help the businesses struggling the most. This is because, **to benefit, a business needs to be doing well enough—to have sufficient profits and income—to have tax liability against which the deductions can be claimed.** This is not a refundable credit, so any business suffering to the point that it has no tax liability will not gain from this. We think the state should decouple—at least partially, if not fully—and **use some of the preserved revenue to help out the small businesses that need it most, the ones that will not benefit from following the federal rule.**

Rhode Island Cannot Afford to Lose These Revenues

If the state remains fully coupled to the federal rules, we stand to lose **an estimated \$133 million in foregone revenues**. Even with partial decoupling, we will lose over \$60 million. With the long-term challenges facing us, we cannot afford to do this. We need these revenues, to invest in the businesses, people, programs, and communities most in need.

Provision Allowing Discretion on the Part of the Tax Administrator Should be Removed

We recommend that legislators remove from Article 2 the provision to allow the Tax Administrator to, in effect, waive even partial decoupling and to use available federal funds to pay out this tax bonus for loan dollars above \$150,000. To allow this would provide tens of millions of dollars to some larger, profitable corporations that least need the additional aid. The federal funds can be used in better ways, with greater return on investment.