



**Testimony in Support of HB6121 Budget Article 2 and in Opposition to SB815  
Relating to the Paycheck Protection Program  
Senate Committee on Finance  
April 15, 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 SB815 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 necessarily 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 \$67.7 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. In regard to SB815, to prohibit counting any forgiven PPP loan as taxable income, this would make sense so long as the expense deductions were also prohibited; if, however, these deductions are allowed, the forgiven loans should be counted in order to offset the tax bonus.

**This Does Not Necessarily Help the Businesses Struggling the Most**

Despite good intentions all around, remaining fully coupled to the federal rule will not necessarily help the businesses struggling the most. This is because, **to benefit, a business needs to have sufficient profits and income against which the expense 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

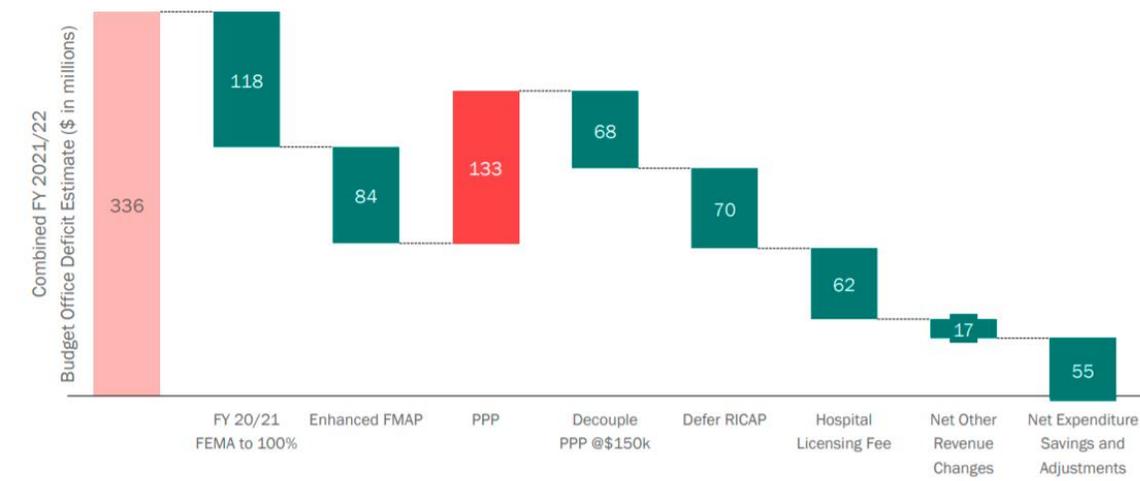
this measure this year (though they may be able to carry forward losses to future years). We think the state should decouple—at least partially, if not fully—and **use some of the preserved revenue to help out the small businesses that need it most**, the ones that will not benefit from following the 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**. The following chart, produced by Rhode Island’s Office of Management and Budget demonstrates clearly that **inaction by the state will result in a revenue loss**, adding \$133 million to a projected FY2021/FY2022 deficit of \$336 million:

**Closing the FY 2022 Deficit**

A combination of federal and state actions enabled the state to close a \$336 million FY 2022 deficit target.



To depart from the federal policy is not to add a tax, it is to prevent this revenue loss. Even with partial decoupling, we will lose close to \$65 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.