

CARES Act and CAA Tax Conformity

*Coronavirus Aid, Relief, and Economic Security (CARES) Act
Consolidated Appropriations Act (CAA) 2021*

CARES Act and CAA Tax Conformity

- Items currently in the Governor’s introduced budget and additional items to be proposed.

CARES AND CAA CONFORMITY PROVISIONS				
Provision	FY 2021	FY 2022	FY 2023	FY 2024
COVID-19 Related Retirement Distributions	-	(\$8.5)	(\$1.4)	(\$0.2)
Above-the-Line Charitable Contributions Deduction	(\$11.1)	(\$2.8)	-	-
Deduction Limitations for Certain Charitable Contributions	(\$19.5)	\$4.3	\$5.8	\$2.3
Exclusion of Educational Payments	(\$3.6)	(\$0.5)	-	-
Total CARES Act Provisions	(\$34.2)	(\$7.5)	\$4.5	\$2.1
Extension of the \$300 deduction for non-itemizers to Taxable Year 2021	-	(\$21.5)	(\$5.4)	-
Enhancing the charitable deduction for individuals for certain contributions	(\$4.5)	(\$19.8)	\$5.4	\$7.2
Temporary full business meals deduction	-	(\$17.8)	(\$10.5)	(\$2.2)
Extension of exclusion for certain employer payments of student loans	-	(\$8.5)	(\$6.2)	(\$6.6)
Depreciation of certain residential rental property over a 30-Year Period	-	(\$8.1)	(\$1.4)	(\$0.9)
Temporary enhancement of the earned income tax credit for certain taxpayers	(\$3.2)	-	-	-
Repeal of the deduction for qualified tuition	-	\$7.7	\$7.9	\$7.4
All other provisions	(\$1.3)	(\$1.8)	(\$0.7)	(\$0.7)
Total CAA Provisions	(\$9.0)	(\$69.7)	(\$10.9)	\$4.3

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- Items not conformed to in the Governor’s introduced budget and additional provision to be excluded.

CARES AND CAA DECONFORMITY PROVISIONS				
Provision	FY 2021	FY 2022	FY 2023	FY 2024
Enhanced Deduction for NOLs	-	-\$312.6	\$13.1	\$26.8
Excess Business Losses for Noncorporate Taxpayers	-	-\$305.9	-	-
Business Interest Deduction Limitation	-	-\$47.3	(\$1.7)	(\$1.3)
Total CARES Act Provisions	-	-\$665.7	\$11.4	\$25.5
Extension of 7.5% Floor for the Medical Expense Deduction	-	(\$14.5)	(\$29.6)	(\$30.2)
Deductibility of Business Expenses Funded by PPP Loan and EIDL Fund Proceeds	(\$150-\$190)	(\$190-\$310)	Unknown	Unknown
Total CAA Provisions	(\$150-\$190)	(\$205-\$325)	Unknown	Unknown

Federal Tax Treatment of PPP Loans

- Under the CAA, recipients of Paycheck Protection Program (PPP) loans are entitled to a double tax benefit.
- This results in disparate tax treatment and a significant revenue loss.
 - PPP recipients are treated more favorably than companies that did not receive such loans, including those that received *Rebuild VA Grants*.
 - According to Small Business Administration (SBA) data, more than half of PPP loans went to 5 percent of PPP recipients, many of them larger-sized businesses. As a result, a double tax benefit might disproportionately help larger-sized businesses.
 - The revenue impact of conforming to this treatment would be significant.
- Limited data is available on firms qualifying for PPP loans, forgiveness of the loans, firm size, operating income, and qualifying expenses.
 - Based on available SBA data, the impact would be significant.
 - The timing of the impact would depend on each PPP recipient's tax liability; any amounts not utilized could be carried over as losses.

Federal Tax Treatment of PPP Loans

- Simplified example demonstrating impact of allowing a double tax benefit:
 - Exclusion from income and the deduction of expenses is authorized under the CAA.

	Inclusion and Deduction	Exclusion and No Deduction	Exclusion and Deduction	NO PPP Loan
PPP Loan Amount	\$150,000	\$150,000	\$150,000	\$ 0
Expense Funded	\$150,000	\$150,000	\$150,000	\$ 150,000
Net Cash Result	\$0	\$0	\$0	\$ (150,000)
Income Reported	\$150,000	\$0	\$0	\$ 0
Deduction Taken	\$150,000	\$0	\$150,000	\$ 150,000
Net Tax Result	\$0	\$0	(\$150,000)	\$ (150,000)

Source: Thimmesch, Adam, "States and the PPP: The Tax Policy Case for State Nondeductibility," *State Tax Notes* 99: 129-135, 11 Jan. 2021.