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Senator Ann Cummings
Chair, Senate Committee on Finance
Vermont State House
115 State Street
Montpelier, VT 05633-5301

April 12, 2021

Chair Cummings,

We, the undersigned organizations, representing cumulatively more than 6,000 members with more than 160,000 employees implore you to conform with the federal treatment of forgiven Paycheck Protection Program (PPP) loans in the tax year 2021, just as you did in tax year 2020. This is important for the following reasons:

Taxing PPP loans would negate the purpose of the program. When PPP was first created under the CARES Act, the legislative intention was that these loans would be non-taxable. Congress saw this as so important to the program's desired impact that they took the extraordinary step of reaffirming this in the subsequent Consolidated Appropriations Act.

Without PPP, the unemployment rates would have been much higher, more businesses would have closed their doors, and the economic fallout would have been more severe. As our state's unemployment system was strained and crashing, PPP created a parallel unemployment system to spread the load, with many employers simply using PPP funds to pay their employees to "stay home, stay safe." There is a trauma associated with losing one's job, even with UI, PPP kept this trauma from occurring by keeping employees on the employer's payroll. Furthermore, personal income tax revenue to the state was not decreased due to these loans.

To tax these loans, which were always presented as a tax-free lifeline, would penalize employers who did the right thing and now do not have the funds. If these loans were to be taxable suddenly, most employers would be met with a surprise tax bill they have no way to pay after a year of being closed through no fault of their own. To have the loan forgiven implies that the employer spent the loan, in its entirety, on payroll and eligible expenses, leaving them with nothing to show.

Retroactively changing the circumstances around the assistance will be unfair, inequitable, and create turmoil. The money to pay tax on these loans is not there as most employers have done what the program told them to do - spend the money right away.



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Given the state is conforming to federal treatment in TY 2020, those least served by the program and who only gained access in 2021 will receive inequitable treatment. An unforeseen tax bill will prolong the economic impact of the pandemic. Many of the businesses that were late to access this program have been the hardest hit by the pandemic and the least served by the program in its earlier iterations. Finally, businesses had no control over when their loan is ultimately forgiven, as procedural hurdles prevented rapid forgiveness, dragging them into 2021 and therefore receiving that year's tax treatment.

There is no double benefit. For example, if an employer has \$100,000 of a PPP loan forgiven, they can and should deduct those expenses. Taxing what otherwise would have been deductible means that the employer is in a worse place than if they had laid off employees and sent them to the UI system. Furthermore, the state already collected revenue from PPP loans in the form of payroll taxes.

In conclusion, taxing PPP loans would negate the purpose and promise of the program. Without PPP, the unemployment rates would have been much higher, more businesses would have closed their doors, and the economic fallout would have been more severe. To tax these loans, which were always presented as a tax-free lifeline, would penalize employers who did the right thing and now do not have the funds. Furthermore, retroactively changing the circumstances around the assistance will be unfair, inequitable, and create turmoil. Finally, there is no double benefit if they can deduct payroll and expenses, as not deducting is the equivalent of paying the loan back in the form of taxes.

We the undersigned organizations, implore you to conform with the federal treatment of forgiven Paycheck Protection Program loans in the tax year 2021, just as you did in tax year 2020.

Signed on,

Lake Champlain Chamber
Vermont Chamber of Commerce
Vermont Ski Areas Association
Vermont Businesses for Social Responsibility
Let's Grow Kids
Vermont Medical Society
Vermont HealthFirst
Main Street Alliance of Vermont
Vermont Retail & Grocers Association



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Vermont Lodging Association
Vermont Association of Wedding Professionals
Vermont Bankers Association
National Federation of Independent Business
Association of Vermont Credit Unions
Vermont Association of Broadcasters
Association of General Contractors of Vermont
Vermont Forest Products Association
Vermont Groundwater Association
Vermont Vehicle & Automotive Distributors Association
Barre Granite Association
Mad River Valley Chamber of Commerce
Vermont Builders and Remodelers Association
Regional Development Corporations
Vermont Veterinary Medical Association
Vermont Insurance Agents Association
Vermont Society of Certified Public Accountants
Renewable Energy Vermont
Vermont State Dental Society
South Burlington Business Association

CC: Senate President Pro Tempore Becca Balint