



February 9, 2021

Dear members of the Arkansas House Committee on Revenue and Taxation,

Arkansas Advocates for Children and Families is writing this testimony in opposition to HB 1361, to Provide for the Tax Treatment of Certain Loans, Payments, and Expenses Related to COVID-19 Relief Programs.

HB1361 is a tax giveaway to businesses. While it may seem reasonable to allow businesses to deduct expenses paid for through the PPP loan program, the forgiven portion of the PPP loan itself would not count as income under this legislation. Under the normal treatment of loans, the expenses the loan helped pay for would be deductible (payroll or rent, for example). But any forgiven portion of a loan would count as income. If we allow the tax discount on forgiven PPP loans AND allow the expenses they paid for to be deducted, as HB 1361 proposes, we would be providing a tax benefit to businesses that have already had their expenses paid for by the federal government. Businesses would get a double-discount on their taxes.

As the fiscal impact notes, this is not a free lunch. It would reduce state revenue by more than \$200 million over two years, and these benefits would likely skew heavily to those with higher income.

Scarce public revenue should instead be directed to those who have greater needs, or on public programs we know need strengthening, especially in these times.

Sincerely,

Bruno Showers  
Senior Policy Analyst  
Arkansas Advocates for Children and Families