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September 1, 2019

The Honorable Gavin Newsom
Governor of the State of California
State Capitol
Sacramento, CA 95814

RE: **AB 1577 (Burke)** Tax Treatment of Paycheck Protection Program Loans – **(Support)**

Dear Governor Newsom,

On behalf of the 43,000 members of the California Society of CPAs (CalCPA) representing the Certified Public Accountant (CPA) profession and related professionals working in large, medium, and small public accounting firms, and businesses throughout California, we are writing to express our support for Assembly Bill 1577. This bill would conform California's tax code to current federal tax rules related to the tax treatment of forgiven Paycheck Protection Program (PPP) loans provided under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

The PPP provided countless California small businesses and nonprofit organizations with a much-needed influx of funds during an unprecedented economic recession. An integral component of the PPP is the ability for much of the loan amount to become forgivable when spent on qualifying expenses such as payroll costs, mortgage interest, rent, and utilities. This unique feature helped small businesses get the immediate financial support they needed to stay afloat without having to incur long-term debt.

Generally, under California and federal tax codes, the forgiveness or cancellation of debt is considered to be taxable gross income. However, when the PPP was enacted by the CARES Act, Congress specifically excluded forgiven PPP loan dollars from being considered taxable gross income for federal purposes. This important exclusion was necessary to prevent a situation where the receipt and forgiveness of coronavirus loan assistance through the PPP adversely affects the taxpayer's tax liability.

However, California does not automatically conform to this narrow exemption, which means that the forgiveness of a PPP loan remains taxable gross income for California purposes. This creates a scenario where a taxpayer's cancelled debt income from a forgiven PPP loan is not taxable for federal purposes, but is taxable for California purposes – leading to an unexpected, and potentially significant, tax liability. AB 1577 would address this issue by bringing California's tax laws into alignment with current federal tax rules related to the tax treatment of forgiven PPP loans.

While AB 1577 reflects current federal laws and guidance by the Internal Revenue Service, we recognize that forthcoming Congressional action could lead to additional changes. Specifically, Congressional action is expected to alter current guidance and clarify that a forgiven PPP loan does not affect the deductibility of ordinary business expenses. Should federal legislation make substantive changes to the tax treatment of PPP loans, we encourage the Legislature to consider subsequent legislative actions to maintain consistency with federal rules.

AB 1577 is an important bill that will avoid significant confusion and complications for taxpayers who are simply trying to keep their doors open and use federal stimulus programs as intended. For the CPA profession, and the taxpayers they serve, we respectfully request your signature on AB 1577. Please do not hesitate to contact us should you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Jason Fox', written over a light blue horizontal line.

Jason Fox
Vice President, Government Relations

cc: The Honorable Autumn Burke