

December 29, 2020

To:
Senator Melissa Melendez
State Capitol
Sacramento, CA 95814

Assemblymember Eduardo Garcia
State Capitol
P.O. Box 942849
Room 4140
Sacramento, CA 94249-0056

Assemblymember Chad Mayes
State Capitol
P.O. Box 942849
Room 4098
Sacramento, CA 94249-0042

Dear Coachella Valley State Elected Leaders,

The Greater Coachella Valley Chamber of Commerce (GCVCC) is requesting you work with your respective legislative bodies to help alleviate an unnecessary tax burden being placed on local small businesses during this time of financial crises. The tax burden stems from language found within Assembly Bill 1577, passed and signed into law on September 9, 2020, which is now out of line with amended federal tax policy.

The Consolidated Appropriations Act of 2021 (H.R. 133) which was passed and signed into law on Monday, December 28, 2020, did more than just create additional stimulus checks of \$600 and authorize a second round of Paycheck Protection Program (PPP) loans called second draw loans. It reversed the IRS's position that the expenses incurred with the forgivable PPP funds would not be included as deductible expenses on the business's 2020 income tax return. The intent of the original CARES Act funding was to create stimulus in the form of forgivable loans. By passing H.R. 133 and clarifying that businesses can in fact take the expense deductions attributable to the PPP funding, the PPP loans become the tax-free stimulus they were intended to be.

While the federal government has corrected the error regarding this funding, the California Legislature has not. Assembly Bill 1577 created language in the CA Revenue and Taxation Code to conform to the federal government's exclusion of PPP funds as income, but also codifies the exclusion of the related expenses as deductions. In summary, this means the federal government will allow the expenses on the 2020 income tax return, but the state of California will not. Depending on the amount of PPP funds received, businesses could have significantly more income tax on their California return than they would on their federal return.

We are calling on our elected leaders in Sacramento to amend AB 1577 as necessary to bring the States taxation policy in-line with current federal tax guidelines as it relates to Paycheck Protection Program (PPP). By doing so the State legislature will reduce confusion between State and Federal tax

requirements, while also allowing the PPP program to accomplish its stated goal of supplying a much-needed lifeline to the California small business community.

Respectfully,



Joshua R. Bonner
President and CEO
Greater Coachella Valley Chamber of Commerce

Cc:
D. Soto, GCVCC Director of Public Policy
J. Figueroa, GCVCC Business Legislative Advocacy Chair
GCVCC Membership