



Adam Proffitt, Director of Division of Budget
Mark A. Burghart, Secretary of Revenue

Laura Kelly, Governor

MEMORANDUM

TO: Senator Ty Masterson, President of the Senate
Representative Ron Ryckman, Speaker of the House
Senator Dinah Sikes, Senate Minority Leader
Representative Tom Sawyer, House Minority Leader
Senator Caryn Tyson, Senate Assessment and Taxation Chair
Representative Adam Smith, House Taxation Chair

FROM: Adam Proffitt, Director of the Budget
Mark Burghart, Secretary of Revenue

DATE: March 30, 2021

SUBJECT: Estimated Impact of Forgiven PPP Loans on State Revenues

The Paycheck Protection Program (PPP) is a federal loan program created by the Coronavirus Aid, Relief and Economic Security (CARES) Act and enhanced by the Consolidated Appropriations Act of 2021 to assist businesses that were negatively impacted by the COVID-19 pandemic. At the time they were introduced, Congress allowed for the loans to be forgiven if the businesses receiving them met certain criteria. Congress further stipulated that any forgiven PPP loan would not be considered income subject to federal income tax. In December 2020, Congress additionally determined that tax filers could deduct expenses paid with forgiven PPP loans on their federal return.

Since Kansas is a rolling conformity state, meaning that the federal treatment of income and expense items at the federal level automatically flow through at the state level, Kansas tax filers will also be allowed to deduct expenses associated with forgiven PPP loans on their state income tax returns, even though the loans themselves are not included as taxable income. This new deduction will have a negative impact on the state's revenue forecast that had not been accounted for in previous revenue estimates, as Congress did not change this portion of the tax code until December 27, 2020.

The Kansas Department of Revenue is currently estimating that there will be a \$359.9 million reduction in state revenues as a result of the new PPP expense deduction. This impact will be realized over the current and next two fiscal years, leading to a revenue shortfall of \$359.9 million. The estimate will be considered when the Consensus Revenue Estimating Group meets in April.