

Massachusetts Should Prohibit “Double-Dip” Tax Break for Profitable Businesses (February 18, 2021)

Overview: The Massachusetts Budget and Policy Center recommends against allowing the state’s personal or corporate tax codes to include the “double-dip”, federal tax break for profitable businesses that receive federal Paycheck Protection Program (PPP) loans.

S.D. 172, “An act providing financial relief to small businesses during the COVID-19 pandemic”, is bad fiscal policy, bad economic policy, bad social policy and bad tax policy. Moreover, the problem that supporters of S.D. 172 argue must be fixed doesn’t actually exist. PPP loans were provided by the federal government to businesses to help them meet payroll, pay rent or mortgages, and cover utility costs. If used as intended, business owners’ PPP loans will be converted into grants on which they will pay no federal or state income tax – a substantial tax break. The real effect of S.D. 172 would be to deliver an *additional* tax break, exclusively to owners of profitable businesses and business owners who can use the new tax break to offset other income.

As a fiscal matter, S.D. 172 would be expensive, costing the Commonwealth at least \$165 million in forgone revenue and likely considerably more. As economic policy, it would provide benefits only to businesses that are turning a profit during the pandemic (or those with other sources of income they can offset) – precisely the businesses least in need of further assistance from the Commonwealth. In terms of social policy, S.D. 172 would focus its benefits overwhelmingly on the state’s highest-income households – again, delivering additional government support to those least in need of this help. And finally, in terms of tax policy, S.D. 172 would violate a basic principle of taxation: No “double-dipping” on tax breaks; you can’t claim a tax break for expenses that someone else has paid for. While the mechanics are somewhat complicated, the end result of S.D. 172 would be to allow businesses to claim a tax break for expenses paid for by the federal government with PPP grants – grants on which these businesses will pay *no federal or state income taxes*.

Recommendations: First, Massachusetts should not adopt S.D. 172. Lawmakers should keep the state personal income tax code decoupled from this costly, ineffective, and inequitable double-dip tax break created by recent federal tax changes.

Second, Massachusetts should decouple from the federal provision that introduces the same double-dip tax break into our state *corporate* tax code. In the case of the corporate income tax, Massachusetts *already* is coupled to the problematic federal provision that allows for double-dipping. So, it will be necessary to *decouple* the Massachusetts code from this federal provision in order to prevent additional, large revenue losses from double-dipping by corporate tax filers.

Revenue Losses: If allowed to affect Massachusetts tax filings, the new double-dip tax break will result in large, one-time revenue losses. Using publicly available data tabulated by the Center on Budget and Policy Priorities, MassBudget makes the following, conservative estimates:

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- S.D. 172 would result in a one-time loss of about \$165 million in *personal* income tax revenue.

- Failing to decouple from the federal provision which creates the same double-dip problem in Massachusetts' *corporate* tax code will result in a further, one-time loss of approximately \$250 million in corporate income tax revenue.

It is important to note that these estimates are based on what may be only a partial accounting of the first round of PPP (which was distributed in two waves). Additionally, a second round of PPP was approved in late 2020 and is already being distributed – and this too is not accounted for in our estimates. The total for this latest round of PPP is estimated at some [\\$286 billion](#) nationwide – or roughly half the size of the first round of PPP. As the total PPP distributed to Massachusetts businesses grows, so will the resulting revenue loss to the Commonwealth due to double-dip tax breaks in our personal and corporate income tax codes.

Distributional Impacts: It is important to note that S.D. 172 - and the equivalent, double-dip tax break already in our state corporate tax code - both would deliver much of their benefit to the state's highest income households. In the case of S.D. 172, the direct beneficiaries will be the owners of profitable passthrough businesses (sole proprietorships, partnerships, LLCs, S corps, etc.). Just under [45 percent of private businesses](#) in the U.S. are owned by the highest-income 1 percent of households, and almost 85 percent of such businesses are owned by households in the top 20 percent. In the case of the already-existing double-dip tax break in our state's corporate code, much of the benefit will flow to corporate shareholders. [Over 40 percent](#) of corporate equities and mutual fund shares are held by the top one percent of US households, while the top 20 percent owns over 85 percent of the total.

When looking at the impact of these tax policies through the lens of race, the inequities are even more pronounced. White households own almost 90 percent of [private businesses](#), while Black and Hispanic households each own less than two percent of the total. For [corporate equities and mutual fund shares](#), the profound racial inequities are worse still: whites hold 90 percent of the total, Blacks just 1 percent, and Hispanics less than one half of one percent.

Given the above, both S.D. 172 and the corresponding tax break already present in Massachusetts' corporate code will likely make our overall state and local tax system [more regressive](#) than it already is.

Additional Resources:

- Center on Budget and Policy Priorities [blogpost](#) on general issue related to S.D. 172
- Maine Center on Economic Policy [report](#) offering greater detail on the mechanics of a proposal in Maine similar to S.D. 172
- Brookings Institution [blogpost](#) on the concentration of benefits from federal double-dip provisions on top income households

¹ As noted, these likely are conservative loss estimates. In making our calculation, we assume that many PPP recipients will be incurring net losses, not profits, during the current recession, regardless of the treatment of their PPP loan/grants. Businesses in a net-loss position won't receive a current tax benefit from the double-dip tax break. Our assumption that half of the total PPP loan amount in Massachusetts will go to such net-loss businesses may be quite low. It is quite possible that a far higher share of the total PPP distributed to Massachusetts businesses will go to profitable businesses – in which case, the resulting revenue losses for the Commonwealth from the double-dip tax break provisions would be considerably higher.