

United States Senate
WASHINGTON, DC 20510

April 7, 2021

Secretary Janet Yellen
Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 3134
Washington, DC 20220

Dear Secretary Yellen:

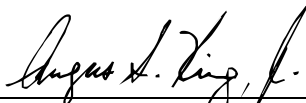
Our states have forgone substantial amounts of revenue by mirroring federal tax aid to unemployed citizens and hard-hit small businesses that Congress has enacted in relief legislation over the past few months. By sending direct funding to states through the American Rescue Plan (“ARP”), Congress intended to help states offset the cost of pandemic-related aid. As the Department of the Treasury develops rules for the ARP State Fiscal Recovery Fund, we request that you explicitly permit states to use the funds for pandemic-related tax conformity.

Conforming state tax codes to two federal pandemic relief measures has created a particularly significant strain on state finances. First, conformity to the federal tax treatment of Paycheck Protection Program (“PPP”) loans has been tremendously expensive for many states. According to the Tax Foundation, 32 states have fully conformed, and a number of other states have partially conformed to the federal tax treatment of PPP loans. Bloomberg Tax reports that PPP-related conformity has cost states billions of dollars in revenue.

Second, states have begun to conform their tax codes to the federal income tax exclusion of the first \$10,200 that a taxpayer receives in unemployment insurance benefits. The 35 states that tax unemployment insurance benefits expected to derive \$12 billion in revenue from that taxation prior to passage of the ARP. If those states choose to conform to the ARP’s \$10,200 income tax exclusion of unemployment insurance benefits, they will lose a sizable portion of that revenue.

While we fully support the ARP’s guardrail against states using relief funds to make generalized tax cuts, we also think that states should not be penalized for providing versions of the very same tax relief that Congress enacted to help struggling citizens and small businesses. We request that as you draft the ARP State Fiscal Recovery Fund rules, you identify pandemic-related state tax conformity as a permissible use of state relief dollars. Thank you for your work on thoughtfully implementing the American Rescue Plan.

Sincerely,



ANGUS S. KING, JR.
United States Senator



KYRSTEN SINEMA
United States Senator



DIANNE FEINSTEIN
United States Senator



ALEX PADILLA
United States Senator



CHRISTOPHER S. MURPHY
United States Senator