PILLA TALKS TAXES

DAN PILLA'S MONTHLY TAX AND FINANCIAL BULLETIN

June 2020
Vol. 32 Issue 5

PPP Loans and the Payment of Business Expenses

Are They Tax Deductible?

The Paycheck Protection Program (PPP) offers loans to businesses that are negatively affected by the COVID-19 disaster declarations that have swept the nation in the past two months. The loans, administered by the Small Business Administration (SBA), can be used to pay business expenses that fall within a narrow scope as defined by law. Allowable expenses include the following:

- Payroll costs,
- Certain employee benefits relating to the health care of employees,
- Rent,
- Utilities for business facilities, and
- Interest on loans and debt obligations (but not principle) under contracts in existence prior to February 15, 2020. See: CARES Act, §1102(a)(1).

A PPP loan is entirely forgivable as long as the money is used for the above items during the period from February 15, 2020 through June 30, 2020. Congress is considering extending this period through December 31, 2020. However, that's not yet final. I discuss the forgiveness process in detail in the July issue of *PTT*.

If the loan is forgiven, the otherwise applicable rules regarding debt forgiveness being treated as taxable income do not apply. See: CARES Act, §1106(i). See also: the April-May issue of *PPT* for all the details on the terms of the loan and how it might be forgiven.

IN THIS ISSUE

ADS

THE PAYMENT OF BUSINESS EXPENSES

Under code §162, all "ordinary and necessary" expenses incurred by a business in connection with earning income are deductible from the business's gross receipts. The "ordinary and necessary" phrase is applied very broadly, and in general, it means that any expense even remotely connected with the operation the business (in the judgment of the business owner, not the IRS) is tax deductible. Most certainly, payroll costs (including the payment of health care benefits to employees), rent, utilities and interest on business loans fall well within the sweep of being "ordinary and necessary."

Of this there can be no dispute.

DO I GET A DOUBLE-DIP?

So how does that work in the context of PPP loans? Do you get a double benefit from paying the allowable expenses? For example, the PPP loan is entirely forgiven if you use the proceeds as permitted by law. Suppose you get a PPP loan for $25,000 and use all of the money for payroll. In that case, the loan will be forgiven. You thus received $25,000 from the federal government, used the money for ordinary and necessary business expenses, but didn't have to pay it back. Not only that, but upon forgiveness of loan, you don't have to declare the $25,000 as debt forgiveness income and pay income taxes on the $25,000.

Sounds pretty sweet; in fact, it's a federal give-away. No question about it.

NOW FOR THE DOUBLE-DIP

Since payroll expenses are most certainly ordinary and necessary, do you get to claim a tax deduction for the payment of those expenses? If so, not only are you not required to repay the $25,000 loan, but you also get a deduction from business income of $25,000, saving even more money.

For example, suppose your effective tax rate is 35%. That means for every dollar you earn in gross revenue, you pay 35% in federal taxes. At that, the $25,000 deduction will save you $8,750 in taxes (25,000 x .35). When added to the $25,000 in PPP money you didn't have to pay back, you actually got $33,750 in direct economic benefit for which you don't have to pay a dime.

IS THAT POSSIBLE?

Well, if you examine §1106(i) of the CARES Act (the provision declaring non-taxable the debt forgiveness) you will find that it is silent on whether the expenses paid with PPP loan proceeds are deductible or not. Moreover, no other provision of the CARES Act addresses the issue. Thus, the nearly 400 pages of law hastily cobbled together by Congress in the first three weeks of March don't say a word about the issue. It seems nobody stopped to think whether they should address the question about the potential double-dip.

WHY IS IT DIFFERENT THAN ANY OTHER LOAN?

You might ask why the use of PPP loan proceeds should be treated differently than any other loan. For example, if you obtain an operating loan from your bank, or a standard SBA loan to run your business, are not the expenses you pay with the loan proceeds tax deductible? Yes—without question. The payment of any business expenses that fall into the "ordinary and necessary" category are deductible, even if you get a loan to pay those expenses. See my ***Small Business Tax Guide*** for detailed analysis of this point.

However—and this is the key—if such a loan is forgiven, the debtor must generally recognize the debt forgiveness amount as taxable income. For example, suppose you get a $50,000 operating loan from your bank. You use the money for payroll and other operating expenses. You claim a deduction on your tax return for all those expenses. Over time, you pay back half the loan. The other half ($25,000) is forgiven by the bank after you fall on hard times. In that case, the $25,000 of debt forgiveness must be counted as income on which you would owe taxes. There are exceptions to this, which I discuss at length in my book ***How to Eliminate Taxes on Debt Forgiveness.***

Thus, there's no double-dip. True, you get a deduction for the expenses paid but you must repay the loan. And in fact, while it's true that the interest on the loan is also a deductible business expense, you cannot deduct the payment of the principal amount of the loan. So as to the $25,000 that was repaid, you received no tax deduction for that payment. You don't declare loan proceeds as income, but neither are they deductible when repaid.

But the CARES Act does not address any of this—anywhere in the law.

QUEUE IRS INTERVENTION

In the absence of statutory guidance on the issue, the IRS—recognizing the potential for the double-dip—issued guidance in the form of Notice 2020-32 in early May. In Notice 2020-32, the IRS straight up addressed whether they will allow a tax deduction for expenses paid with PPP proceeds in the event the loan is eventually forgiven. The short answer is, no, they will not.

Without dissecting the IRS's lengthy legal analysis (which in this case, is not crazy), the agency comes to the conclusion that code §265 and the court decisions rendered thereunder operate to "prevent a double tax benefit." Notice 2020-32, pg 6.

Very briefly, §265 disallows a deduction for any expense that is paid with a "class of income" that is "wholly exempt from taxes imposed" under the tax code. Ibid, pg 4. In this case, the "class of income" is the PPP loan proceeds, which if used properly, a) don't have to be repaid, and b) the forgiveness of which is not treated as taxable income. On its face, therefore, it is not unreasonable to hold that the payment of expenses with PPP loan proceeds does not give rise to yet another tax benefit, i.e., the deductibility of the expenses.

As it stands now, the IRS considers the payment of expenses with PPP proceeds as non-deductible if the loan is forgiven. This is yet another reason it is so important to keep careful records of exactly how the proceeds are used, both for purposes of seeking loan forgiveness, and to ensure that deductions aren't claimed for expenses paid for with the money; that is, unless Congress acts to more clearly specify whether the expenses paid with PPP proceeds are deductible or not.

IS THIS WHAT CONGRESS INTENDED?

On May 5, 2020, a letter was written to the Secretary of Treasury by both the chairmen of the Senate Finance Committee and the House Ways and Means Committee, which letter was co-signed by the Ranking Member of the Senate Finance Committee. The letter constitutes a harsh objection to the IRS's determination as expressed in Notice 2020-32. The writers declare, among other things, that they believe the IRS's position "ignores the overarching intent of the PPP, as well as the specific intent of Congress to allow deductions in the case of PPP loan recipients." Letter, pg 1.

The letter goes on to explain why the legislators believe the IRS's reasoning is "flawed in its analysis." They assert that §265 "should not be read to deny ordinary and necessary business deductions in this case." Letter pg 2.

As of this writing, the IRS has not reversed its position.

Congressional Action on PPP Expected

Numerous Bills Are Afloat

The Paycheck Protection Program is far from a finished product. In addition to the issues raised in the previous article regarding the deductibility of expenses paid with loan proceeds, other issues have arisen over the past several weeks. As a result, Congress has proposed two additional measures that would address PPP issues.

Last week the House passed the first of these measures, H.R. 6800, the Coronavirus Recovery Supplemental Appropriations Act. It's a 1,800-page, $3-trillion relief package put together by House Democrats. A great deal of the relief is in the form of aid to broke states. Among the laundry list of giveaways in the bill, Division I (pg 821) provides for various changes to the PPP, including §90001(b), which would do, among other things, the following:

- Extend the maturity of the loans to five years,
- Guarantee that at least 25% of funding resources go to businesses with ten or fewer employees, and
- Provide $1 billion in funding to "community financial institutions" to allow them to "update their systems" so they can "efficiently provide loans" under the PPP.

Section 90002 would push total program funding to $659 billion.

Section 90004, would do, among other things, the following:

- Extend the "applicable period" in which loan proceeds can be used for up to 24 weeks from the date of funding, or until December 31, 2020, whichever is earlier,
- Expand the allowable use of funds to pay "interest on any other debt obligations" incurred before February 15, 2020, and
- Allow for debt forgiveness even if there was reduction in the number of employees, if such employees were not available to rehire, or similarly qualified employees were not available to replace them.

The bill also contains a provision, §90006, providing that payments made to persons under the PPP are not considered income to the person "on whose behalf such payment is made." Thus it appears that, if adopted (which is not likely), wages paid with PPP funds are not taxable to the employee who received them.

A second bill, vastly smaller in scope (just three pages) is H.R 6886, which the House is expected to take up before the end of May. It addresses only a few issues, including the "covered period." It would extend to December 31, 2020, the period in which PPP funds can be used. This is consistent with a provision of H.R. 6800.

I am generally reluctant to analyze bills as they work their way through Congress because they are subject to so much change before they reach the president's desk. But we are in very fast moving waters these days, so I will keep a close eye on this. One thing seems sure: the Senate is very unlikely to do anything with the $3 trillions worth of bailout provisions in H.R. 6800.

H.R. 6800 is by far the largest single bailout proposal yet. Speaker Nancy Pelosi's bill includes:

- $500 billion in aid to states,
- $375 billion to local governments,
- $20 billion for tribes,
- $20 billion to U.S. territories,
- $90 billion in education grants,
- A second round of cash payments to Americans, up to $6,000 per household, and
- Extension until January 31, 2021, of the $600 weekly increase of unemployment benefits, and much, much, much more.

As I said, the bill adds up to more than $3 trillion in spending, on top of the approximately $5 trillion that's already been doled out by Washington. In pushing her bill, Pelosi stated that she is counting on public support for another relief package to "meet the needs of the American people."

Oddly, nowhere in any of the Democrat proposals are there any tax cuts. If Washington wants to meet the needs of the people, why not cut their taxes to the bone during this crisis? I'm growing more concerned every day that the government's bailout solutions to our current economic problems are going to kill the patient.

The fact is I'm not sure we can stand any more bailouts. Yet both Republicans and Democrats are pushing for various forms of additional aid, and they want it now. We know of the proposal passed by Nancy Pelosi's House Democrats, much of which is pointed at states now facing massive budget deficits. States have lost billions in sales tax revenue because of stay-at-home orders. The longer such orders are in effect, the more difficult it will be for small businesses to recover and begin paying taxes again. And as far as state revenue is concerned, they may never recover revenue lost due to "sheltering at home."

Republican Senator Josh Hawley of Missouri called for a "stimulus" that would provide 80% of payroll for all U.S. workers for the remainder of the crisis. How any of this will be paid for, of course, is no part of the discussion. I have to believe that the inflationary fallout from ongoing government printing press aid will cause as much—or more—harm than the stay-at-home orders themselves. Sure, it will be great when everybody is back to work and the economy is humming again. But what will that mean to the average American family if a loaf of bread costs $28?

I think we better slow down a bit and get a good grip on where all this is headed before yet another bailout is passed.

Why Not a Payroll Tax Cut?

Lower Employment Taxes Encourages Hiring

One of the ideas being bounced around to address the economic fallout of government stay-at-home orders is the concept of suspending payroll taxes for the foreseeable future. This idea was floated by President Trump and is favored by a number of free market economists and policy analysts, including me. Cutting employment taxes means workers get more money in their checks every payday, and employers have a reduced tax burden on the workers they hire.

Never forget: What you tax, you get less of. The more taxes you load on employment, the less employment you get.

Trump generally favors the idea but the challenge is, "How do you get Nancy Pelosi to go along with it?" Not surprisingly, Democrats oppose the idea, just as they do with any real tax cut proposal. They would rather keep taxes high and force more personal dependence on government benefits than allow people to keep more of what they earn.

Pelosi's theory that an employment tax cut would do nothing for the millions of Americans currently out of work is simply wrong. As I said, what you tax, you get less of. Reduce the employment tax burden associated with hiring workers and American businesses will hire more workers. That's an economic fact of life.

Five Critical Things to Know About PPP Loans

Seeking Clarification in the COVID-19 Storm

BY CHRISTY LEE, ATTORNEY AT LAW *

Somehow this spring has been both the longest and shortest season ever. Congress passed the CARES Act in March, but that was not the end of the story. Several times a week since, the Small Business Administration issues more guidance regarding the Paycheck Protection Program (PPP). At this point, you may feel like the prospect of obtaining forgiveness of your PPP loan is a moving target. You would think that by this point in the program, when many of the initial borrowers are halfway through their covered period, we'd know all the rules. Sadly, that is not the case.

To help sort through the morass, below are five things I want you to know now that *some* of the dust has settled and more guidance has been issued. The SBA just released the information in Point One on May 13. The remaining points are clarifications and expansions of other blogs and webinars I have published.

1. The "Safe Harbor" Provision. Remember the public outcry about a month ago when we discovered that large public corporations took funds from the Paycheck Protection Program? The government reminded all applicants that they certified "in good faith" that they needed the loan to continue their operations. The government created a safe harbor provision for those that took money but actually didn't need it. Under the safe harbor, applicants that returned the funds by May 18 (originally May 7) would be deemed to have made the certification in good faith even if they didn't need the loan due to the current situation and had other access to funds. See: PPP Loans, FAQs, Q&A #47. Businesses across the country have been wondering and asking questions such as, "What does it mean that 'current economic uncertainty' makes this loan request necessary?" "Just how bad off do I have to be to need the loan?" The government has threatened audits for businesses of all sizes that take PPP loans. [Editor's note: I address this audit threat in the article below, titled Is Free Money Ever Free? DP]. Many businesses have already returned the funds for various reasons, including because they simply do not want the hassle of an audit straining their already limited resources. Today, just one day before the deadline to return funds, the government has stated that all businesses whose loans were less than $2 million will be presumed to have made those certifications in good faith. See: PPP Loans, FAQs, Q&A #46.

See all PPP FAQs here:
https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf

2. Bonuses/Hazard Pay. Many of you have asked whether you can give your employees bonuses with PPP proceeds. Generally, I advise against it because the purpose of the CARES Act and PPP is to maintain business operations, not expand them. However, I want to clarify that I do believe that "hazard pay" for certain industries and locations is permissible. You should identify the extra pay as "hazard pay" rather than a bonus and denote that it is specifically for the hazards the employee undertakes to work in that job. For example, a medical office may choose to pay its receptionist hazard pay since she regularly interacts with the public. Another example of reasonable hazard pay is someone who works in an elder care facility. On the other hand, hazard pay is not appropriate for someone whose job responsibilities do not put him at risk, such as a full-time remote employee who never leaves his home office. However, there is also an argument for allowances for employees who need to pay for child care since schools throughout the country are shut down due to the pandemic. Remember though, the portion of compensation to an employee over $100,000 annualized salary will not be forgiven.

3. Hours Required for Full-Time Equivalent Employees. The statute and regulations regarding the PPP do not specifically define how many hours an employee must work to be considered a full-time employee. In an effort to be conservative and protect your loan's forgiveness component, we have recommended 40 hours a week to be considered full-time. We now believe that 30 hours can be considered a full-time equivalent employee. Another portion of the CARES Act, the so-called Employee Retention Credit, specifically refers to another federal law that uses a 30-hour per week as the definition of full-time. I believe it is therefore reasonable to expect that the SBA will accept 30 hours a week as a full-time equivalent employee.

4. Full-Time Equivalent Employee Look Back Period. For forgiveness purposes, you must maintain the same number of full-time equivalent employees during your covered period as existed during the look back period. The look back period is February 15, 2019 to June 30, 2019, or January 1, 2020 to February 29, 2020. You as the borrower can chose which one is more beneficial to you. If you are a seasonal business, the government issued specific regulations for calculating the loan amount which open the door for other potential look back periods. If you are a seasonal business with questions, please call for a consultation as it depends on your business and the regulations have introduced yet more questions. See my contact information below.

5. Requirement of 75% of Proceeds Used for Payroll. It has always been my stance that you must use at least 75% of your total loan amount on payroll costs in order for your loan to be forgiven. My stance has been that this is an "all or nothing" requirement. I've referred to this as the "atomic bomb," destroying your chances at loan forgiveness. Moreover, the amount of debt forgiveness is further reduced on a pro rata basis if you do not meet the full-time equivalency requirements and do not maintain employee compensation equal to at least 75% of what they were prior to February 15, 2020.

To support my “atomic bomb” theory, I based my interpretation on Interim Final Rule 1, which uses words such as “at least” and “shall” to state how much of the loan proceeds must be spent on payroll. However, the American Institute of Certified Public Accountants (AICPA) takes a different stance. They do not believe the requirement is an atomic bomb. Rather, they state that if you don’t meet the 75% requirement, the remainder of the loan can be forgiven on a pro rata basis. Keep in mind, however, that the AICPA’s stance is not law. Congresses alone passes laws and allows the agencies such as the SBA to issue regulations. Even though the AICPA interprets this provision differently that I, the SBA has surprised us before. Final guidance is still up in the air and it remains to be seen exactly how this will be viewed.

Regardless of further rulings, if you go with my interpretation, and I turn out to be wrong, *you don’t lose anything!* You will still get your loan forgiven, and at most, you will be out only the time it takes to come up with creative tasks for your employees to do during this period. On the other hand, if you go with the AICPA’s interpretation and do not use at least 75% of the loan proceeds for payroll, your loan might not be forgiven—either in its entirety, or pro rata based on what was not used for payroll. I have long believed that it is best to be conservative in these matters. I suggest you follow this policy here, unless you are willing to take on a loan you must repay over time.

---

*Christy Lee** *is a long-time member of TFI/TDI. She is an attorney from Anchorage with offices in other parts of the U.S. She can be reached as follows:*

Law Offices of Christy Lee, P.C.
225 E. Fireweed Lane, Suite 200
Anchorage, Alaska 99503
Phone: (907) 339-9931
Email: clee@christyleelaw.com

Is Free Money Ever Free?

Beware of Audit Risks Related to PPP Loans

Millions of businesses scrambled to obtain Paycheck Protection Loans (PPP) from the government during April and May. Millions more will continue to seek such loans as Congress makes more funds available under the program.

As we know, PPP loan are "forgivable" if "current economic uncertainty" makes the loan necessary to continue business operations. We also know that PPP loan proceeds must be used for a very narrow scope of expenses as set out in the lead article of this issue. If a business uses the proceeds as required (with at least 75% going to payroll costs) the loan is forgiven. That is to say, you don't have to pay it back. It's free money from the government—a giveaway; largess.

But nothing from the government is ever free. In the case of PPP loans, taking the money opens businesses up to potential audits—on at least two accounts.

The first audit scenario addresses whether the loan was "necessary" to continue business operations. The "necessary" element must be certified on the loan application and is subject to government scrutiny. I expect the SBA to inquire of the business whether the loan was indeed necessary to continue operations. In some cases, such as restaurants or other service industries closed by government "stay-at-home" orders, this should not be a significant challenge.

Other businesses that continued to operate will have to show that the money was necessary. There's no statutory guideline or instructions from the SBA as to exactly what constitutes necessity in this regard. Certainly it will be a facts and circumstances test based on the totality of factors relevant to your situation. At the core is the extent to which the business revenue dropped in 2020 compared to the corresponding quarters of 2020. For example, if your second quarter 2020 revenue is half of what it was in 2019 (with all other factors being equal) it will be hard to say that a PPP was not "necessary" to continue business operations.

On the other hand, if yours is a personal services business specializing in the home delivery of groceries and other personal items, your business might be flourishing in 2020. If your revenue is up expressly because of COVID-19-related factors, it will very hard to say you need the money to continue business operations.

The second, and frankly more likely, audit scenario will be the government's efforts to verify that loan proceeds were in fact used as required by law. Both the statute and the PPP loan application are very specific about how the proceeds must be used. The applicant signs a declaration on the PPP loan application saying the money will be used as required. Likewise, the loan forgiveness application (discussed in detail next month) also contains such a declaration, and the application process requires the production of supporting documents to prove the case.

I expect this to be scrutinized heavily. If you took or plan to seek a PPP loan, be absolutely certain that you, a) use the money only as authorized by law, and b) you can prove it.

The burden will be on you to prove you did it right; the government will not be required to prove you did it wrong. If you're unsure about any element of PPP, make sure you consult competent counsel before proceeding.

New Email Refund Scam

Fraudsters Target Stimulus Payments

It sure didn't take the world's scam artists long to figure out how to run a con targeted at the $1,200 stimulus checks promised under the CARES Act. A few weeks ago, I received an email, shown below. It tells me the government "recalculated my fiscal activity" and determined that I am "eligible to receive" a check for free money.

The email is clearly a scam, as indicated by the rough language, poor syntax and the silly processes described in the email. I was particularly amused by last line, which declares that the email is "copyrighted" by the IRS. Wow. That surely is impressive.

I forwarded it immediately to the Treasury Inspector General for Tax Administration. Do not be scammed by this fraud. The full email is shown below. I removed the link provided in the email so as to avoid accidents.

Move to...

SUBJECT: IRS online submission of self-assessment | Tax Rebate on | Claim it online | Item number: 800-555-4477

TTN: Dear Applicant,
2020 - Recalculation Tax Refund

You have received this email to be notified that IRS has recalculated your fiscal activity and has determined that you are eligible to receive a Tax Refund for $370.70 as part of the CoronaVirus Aid stimulus bill.

Please, reconfirm your I **Login details*** I To claim your annual tax refund online.

[Note: The link goes to no IRS site.]

If you don't reconfirm the login form, you will not be able to claim your Tax Refund Online.

Note: For security reasons, we recommend that you close your browser after you have finished accessing your refund status.

- Issuing date [April 2020]
- Refundable Amount [$370.70]
- Payment Option [Electronically by card]

This is an automatic email, please do not reply to this email as this mailbox is not monitored. If you have already submitted to refund form, please disregard this automated email.

IRS Copyright 2020

ORDER NOW

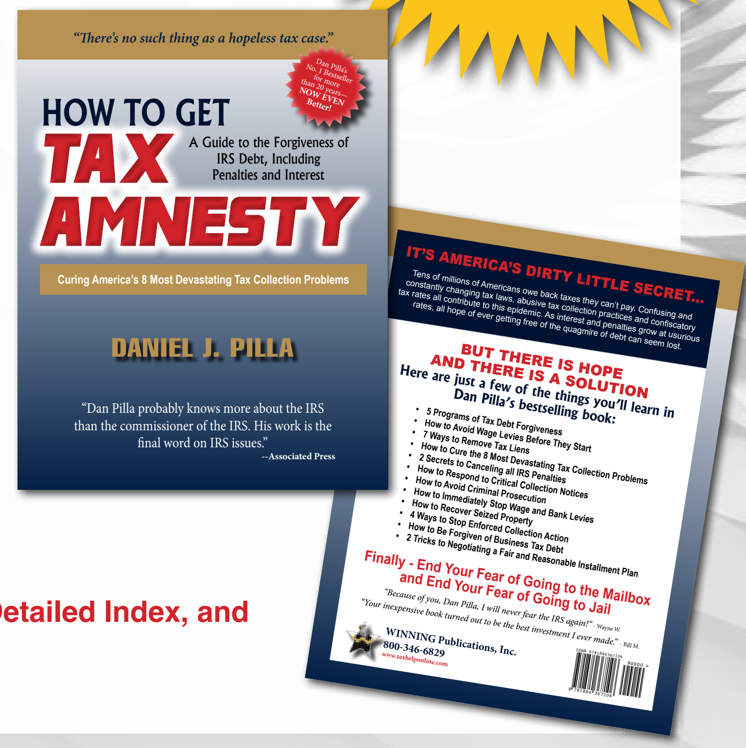
HOW TO GET TAX AMNESTY

A Guide to the Forgiveness of IRS Debt Including Penalties and Interest

ONLY $39.95 + P & H

Dan Pilla's master work and national bestseller is now all new. It's been completely re-written from cover to cover, with all new information on your rights when dealing with the IRS. Dan's book includes detailed discussions on:

- Collection Due Process Appeals
- Negotiating Installment Agreements
- How to Appeal all Collection Actions
- Using the Office of the Taxpayer Advocate
- The Most Thorough Discussion on Negotiating Offers in Compromise Ever Written
- What Every Taxpayer Needs to Know About the Collection Statute of Limitations
- How to Identify Important IRS Correspondence
- How to Stop Levies Before They Happen
- Dealing with Penalties, Including the Oppressive "Frivolous Submissions Penalty"
- How to Release Wage and Bank Levies
- Dan's Definitive Guide to Discharging Taxes in Bankruptcy
- Including a Glossary, Table of Abbreviations and Detailed Index, and
- Much, much more.



This is the book that changed the face of tax collection forever. It is Dan's work that forced the IRS to modify its penalty assessment and abatement procedures, and it is Dan's work that forced the IRS to revamp its Offer in Compromise program so beleaguered taxpayers now have a reasonable chance to put their problem behind them. And, Dan was the first to expose and prove unequivocally that federal income taxes were dischargeable in bankruptcy—a fact the IRS lied about for *twenty-two years!*

How to Get Tax Amnesty is the seminal work on IRS negotiations. If you are a taxpayer dealing with the IRS, or a tax professional who interacts with the IRS on behalf of clients, you simply must have this book. There is no more thorough treatise on tax debt negotiations available anywhere, at any price, written by a more experienced author than Dan Pilla—period. Dan is the preeminent authority on IRS procedures.

As the Associated Press once said, **"Dan Pilla probably knows more about the IRS than the Commissioner of the IRS."**

ORDER YOUR COPY NOW CALL or CLICK

800-346-6829 OR GO TO WWW.TAXHELPONLINE.COM

"Because of you, Dan Pilla, I will never fear the IRS again." Wayne W.

COVID-19 Is the Tax Increasers' Best Ally

BY DR. MERRILL MATTHEWS

For 30 years—since President George H. W. Bush's capitulation to Democrats' demand he raise taxes in November 1990—the single most consistent difference between Republicans and Democrats is that Democrats want to raise your taxes and Republicans don't. In fact, Republicans have successfully lowered taxes on several occasions, most recently in December 2017.

But the multi-trillion-dollar surge in federal spending in response to the coronavirus is swelling the federal debt, which gives the call for higher taxes more resonance. Republicans have typically responded to Democrats' tax-increase demands by proposing federal spending cuts instead.

Reasonable people can disagree over whether Republicans' past support for spending cuts is serious or just an attempt to convince their constituents that Republicans are fiscally conservative. But reasonable people cannot disagree over whether Republicans have succeeded in cutting spending. They haven't, and it's not clear they even try very hard.

Just within recent pre-coronavirus memory there was the $1.3 trillion spending increase in March of 2018 and another $1.3 trillion in December of 2019. Both of those spending splurges had wide bipartisan support. The one time Republicans were successful in cutting spending—in the Budget Control Act of 2011 (i.e., "the sequester")—was short-lived. Congress later raised the sequester spending caps several times.

The primary difference between Republicans and Democrats on federal spending is that some Republicans but no Democrats claim to feel bad about the spending increases.

The U.S. national debt clock pegs federal debt at more than $25 trillion. The coronavirus aid packages will bump that figure up by several trillion dollars—in just one year. Frustrated Democrats will surely see that rising federal debt as a tax-increase opportunity. They are even lauding Bush 41 for his "profile in courage" in breaking his promise and raising taxes.

And Democrats see the 2020 presidential election as their best opportunity to claim a voter mandate to raise taxes on the wealthy. Every one of their presidential candidates called for a string of new taxes, many of which would hit Middle America, not just the rich. With the coronavirus spending surge, they now have an added defense: fiscal responsibility. If Congress is going to pump trillions of dollars into the economy—and it has—it would be fiscally irresponsible not to raise taxes, so they argue.

Republicans should go into this next round of coronavirus spending talks—House Democrats just proposed $3 trillion more—fully aware of why Democrats want to spend so much.

It will be interesting to see how Republicans respond to the tax-increase pressure. It appears no one wants to cut spending right now. And yet Republicans have long fretted over the rising federal debt.

Democrats know all of that, which is why COVID-19 has become the tax-increasers' best ally.

How You Can Ask Dan Pilla a Question

If you have questions or problems you'd like Dan Pilla to address, please write to Dan at:

215 W. Myrtle Street
Stillwater, MN 55082

or e-mail to:

expert@taxhelponline.com

Write the word "newsletter" in the subject line.