

# Drafting error could mean 21% tax hit on CARES Act relief funds

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**What's the news:** The AMA and many other stakeholders in health care are urging Congress to rectify an apparent CARES Act drafting error that, if left unaddressed, could mean that entities receiving relief funds under the legislation might have to pay taxes on the money they got from the government.

Organizations representing nurses, dentists, hospitals, optometrists, physical therapists and hospices joined the AMA, the U.S. Chamber of Commerce and others in asking Congress “to clarify and correct” what they “believe are the unintentional tax consequences of policies meant to provide vital funding to health care providers through the Public Health and Social Services Emergency Fund (PHSSEF) and other programs as part of the nation’s response to the novel coronavirus (COVID-19) pandemic.”

Find out what the CARES Act means for physicians and medical students.

**Why it's important:** Unless Congress fixes the problem, tax-paying health care organizations would “lose at least 21% of the benefit of these funds,” says the letter to congressional leaders in both parties in the U.S. House and Senate. “We do not believe Congress intended such a consequence in enacting the CARES Act and other COVID-19-related legislation.”

When the government pays corporations, those payments are taxable, generally speaking. When enacting the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March, Congress spotted the issue and specifically exempted Payment Protection Program (PPP) funds from taxation. But drafters failed to have that exemption apply to “entities receiving PPP funds from maintaining their tax deductions for expenditures attributable to PPP funds.”

Now there is bipartisan support to fix the problem in upcoming legislation, and the AMA and others are asking to extend the correction to the PHSSEF monies that are vitally needed to help health care

organizations adversely affected by the pandemic.

“The congressional response to the COVID-19 pandemic has been swift and decisive. It is critical that the actions taken to support front-line caregivers and hospitals are not diluted by technical issues around the taxability of support funds,” says the letter. “Congress should streamline the assistance process and ensure the target entities receive 100% of the assistance Congress intended.

**Learn more:** Stay current on the?AMA’s COVID-19 advocacy efforts?and track the pandemic with the?AMA’s COVID-19 resource center, which offers resources from?JAMA Network™, the Centers for Disease Control and Prevention, and the World Health Organization.