PMSE Releases Model State Legislation Preserving Federal State & Local Tax Deduction for Main Street Employers
Connecticut Paves Way for Other States to Act

Today, the Parity for Main Street Employers coalition of national trade groups released model legislation to preserve the federal State and Local Tax Deduction (SALT) for Main Street Employers organized as pass-throughs. This follows action by Connecticut last week to enact similar legislation, paving the way for other states to act.

The federal tax reform law preserved the SALT deduction for C corporations but denied it to millions of businesses organized as pass-throughs because they pay those same taxes at the owner level. Those businesses remain able to deduct taxes that are paid at the entity level. The model legislation, like the Connecticut bill, would shift the tax paid by pass-through businesses from the owner to the entity, thereby preserving the SALT deduction.

"Connecticut is to be praised for leading the way to address a huge disadvantage for Main Street employers," said Chris Smith, PMSE Executive Director. "S-corps, partnerships, and LLCs across America face a tax increase from the loss of the SALT deduction. According to the Joint Committee on Taxation, the tax hike from the loss of the SALT deduction is significantly bigger than the benefit of the 20-percent pass-through deduction. That's just not fair and is the opposite of tax parity. C corporations can continue to deduct their state and local taxes. So should pass-throughs."

"There is a clear legal path for states to act to fix this problem," said Smith. "That's why we are also releasing today model state legislation to preserve the continued deduction of state and local taxes for pass-through businesses as a business expense. We are urging more states to follow Connecticut's lead and act."

The model legislation would:

- Change the incidence of tax on pass-through business income from the owner to the entity, making those taxes deductible at the Federal level;
- Give those owners a credit for the taxes paid at the entity level; and
- Recognize the value of similar credits paid by other states to pass-through owners.

These changes would restore the deductibility of these taxes, all at no cost to the state. To help additional states adopt this fix, we are providing model legislative text to assist in the drafting process.

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