Main Street Employers and SALT
Protecting Businesses and the Families They Support.
Empowering State and Local Economies.

Vol. 2 – January 2021

Parity for Main Street Employers
The 2017 Federal SALT cap puts main street employers and the economies they power at a disadvantage.

The 2017 Federal Tax Cut and Jobs Act (TCJA) places a cap of $10,000 on the amount of state and local taxes paid (SALT) that an individual can deduct on their federal taxes. This hurts employers organized as S corporations, partnerships and limited liability companies ("pass-through" entities) that pay taxes on business profits at the individual (owner/partner) level. The negative impacts include:

- Increased federal taxes for main street employers.
- A disadvantage compared to C corporations, which are not subject to the new SALT cap.
- A disadvantage compared to businesses operating in nearby states that have already adopted this reform.

The majority of businesses in the U.S. are organized as pass-through entities that employ most private-sector workers.

Some of our main street employers, large and small, impacted by the SALT deduction cap:

- Architectural and engineering firms
- Beer and wine retailers
- Clothing and home good retailers
- Construction companies
- Finance and accounting firms
- Food and beverage retail
- General contractors
- General merchandise retailers
- Heating and air conditioning contractors
- HR companies
- Insurance agencies
- Independent beer and wine distributors
- IT and technology firms
- Law firms
- Personal service retailers
- Physician offices
- Public relations and marketing agencies
- Restaurants and bars
The Federal SALT cap hurts main street employers and threatens state economies.

- Pass-through entity employers, whose business income is taxed at the individual owner, partner or shareholder level, bear a high cost when their ability to deduct SALT from federal taxable income is limited.

- For many states, denying the full SALT deduction for S corporations, partnerships and LLCs has increased federal tax rates for hundreds of thousands of businesses organized as pass-through entities.

- Driving up the state tax burden undermines a state’s competitiveness by making it harder for businesses to recruit and retain skilled workers.

**WHAT’S AT STAKE**

**RECOVERING FROM COVID-19:** SALT reform will provide immediate relief for main street employers and the families they support while remaining revenue neutral for state tax receipts.
The SALT cap puts main street employers at a distinct disadvantage to C corporations that have maintained the full SALT deduction.

On average, the SALT cap raises tax rates for pass-through entities by 1.8% - 2.2%.
SALT REFORM RECOGNIZED BY IRS

ON NOVEMBER 9, 2020, THE DEPARTMENT OF TREASURY AND THE IRS ANNOUNCED PROPOSED REGULATIONS SUPPORTING STATE ENACTED SALT REFORM.

“The Department of Treasury and IRS are taking the necessary steps to provide fairness for America’s small businesses. These proposed regulations will offer clarity for individual owners of pass-through entities.”

– Steven T. Mnuchin, Secretary
Since Congress adopted tax reform in 2017, seven states have adopted our SALT parity legislation:

- Connecticut Act 18-49 (enacted May 31, 2018)
- Wisconsin Act 368 (enacted Dec. 14, 2018)
- Oklahoma H.B. 2665 (enacted April 29, 2019)
- Louisiana Act 442 (enacted June 22, 2019)
- Rhode Island H. 5151A (enacted July 7, 2019)
- New Jersey P.C. 2019, Ch. 320 (enacted January 13, 2020)
- Maryland S.B. 0523 (Took effect July 1, 2020)

Meaningful SALT relief reduces federal taxes for main street employers while remaining revenue neutral for state tax receipts.

SALT parity legislation is being introduced and considered in a number of other states:

- Alabama (Budget Bill)
- Arkansas (H.B. 1209)
- California (S.B. 104 & Governor’s Budget Bill)
- Colorado
- Georgia
- Illinois
- Massachusetts (Governor’s Budget Bill)
- Michigan (S.B. 1170 from 2018)
- Minnesota (S.F. 263)
- New York (Governor’s Budget Bill & S. 2915)
- North Carolina
- Ohio
- Pennsylvania
- South Carolina
- Virginia

In response to TCJA, states across the country are changing their tax laws to level the playing field for pass-through businesses and the families they support.
Our legislative proposal allows pass-through businesses to *elect* to pay SALT on their income at the entity level. For companies that make this election, the reform will:

1. Impose an entity-level tax relative to the state’s individual income tax rate.
2. Provide pass-through business owners an income exclusion to shield them from double taxation.
3. Allow pass-through business owners the benefit of tax credits and taxes paid in other states that adopt these reforms.

**A win-win for main street employers and the economies the support.**

<table>
<thead>
<tr>
<th>CURRENT LAW Pass-Through Tax</th>
<th>SALT PARITY REFORM Entity Tax</th>
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<tbody>
<tr>
<td>Business Income</td>
<td>$1,000.00 $1,000.00</td>
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<tr>
<td>Restored SALT Deduction</td>
<td>N/A $59.10</td>
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<tr>
<td>Net Taxable Income</td>
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<tr>
<td>State Tax</td>
<td>$59.10 $59.10</td>
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<tr>
<td>Federal Tax</td>
<td>$370.00 $348.10</td>
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<tr>
<td>Total Tax</td>
<td>$429.10 $407.20</td>
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</table>

**SALT Savings** $21.90

*5 Corporation paying marginal tax rates of 37% federal and 5.91% state.

**REVENUE NEUTRAL FOR STATES:**
The taxes paid to states don’t change. Any savings to businesses come from a reduction in Federal taxes paid. A solution to the federal SALT cap for hundreds of thousands of main street employers at no cost to the state.
THANK YOU.