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.

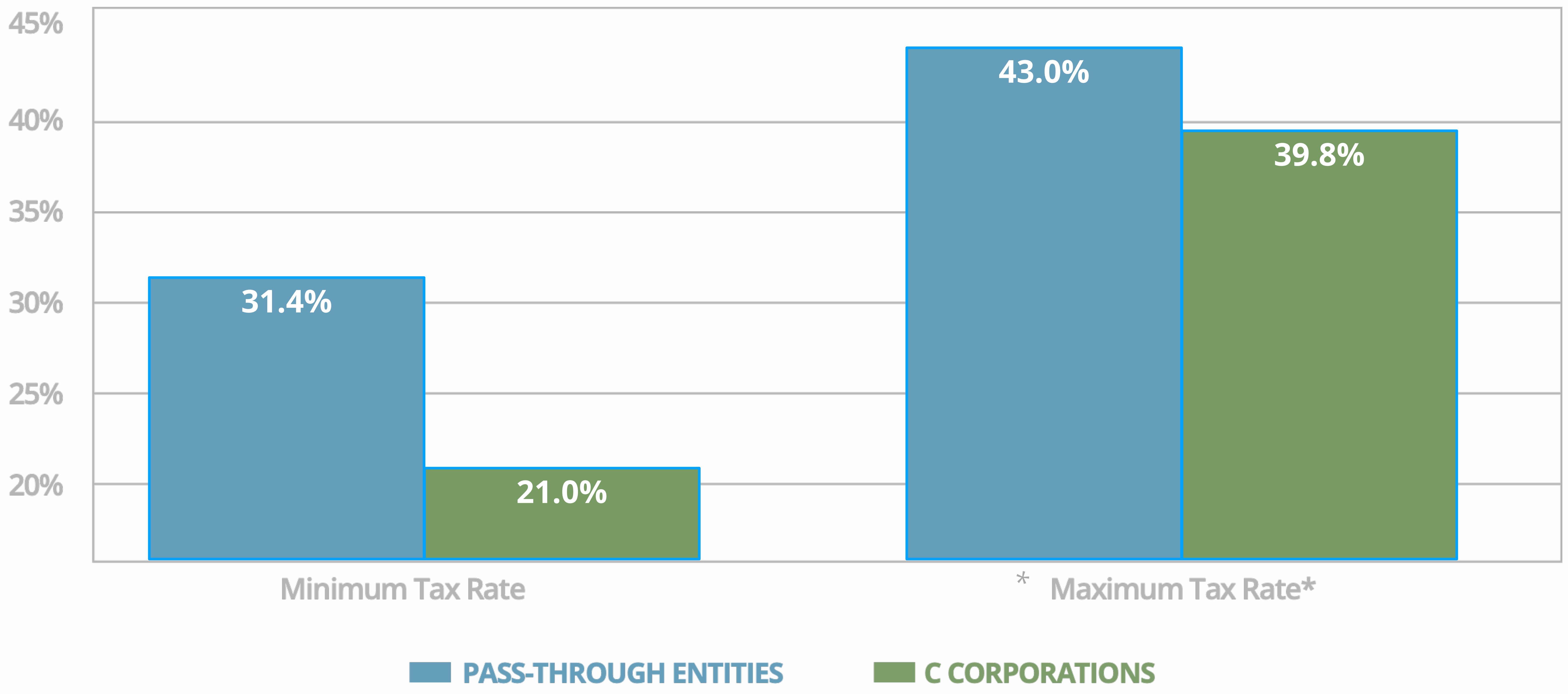
- Pass-through entity employers, whose business income is taxed at the individual owner, partner or shareholder level, bear a high cost when their ability to deduct SALT from federal taxable income is limited.
- For many states, denying the full SALT deduction for S corporations, partnerships and LLCs 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.

> *SALT CAP WILL LEAVE ABOUT 10.9 MILLION PEOPLE FEELING TAX PAIN*
>
> BLOOMBERG
> 2/27/19

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%

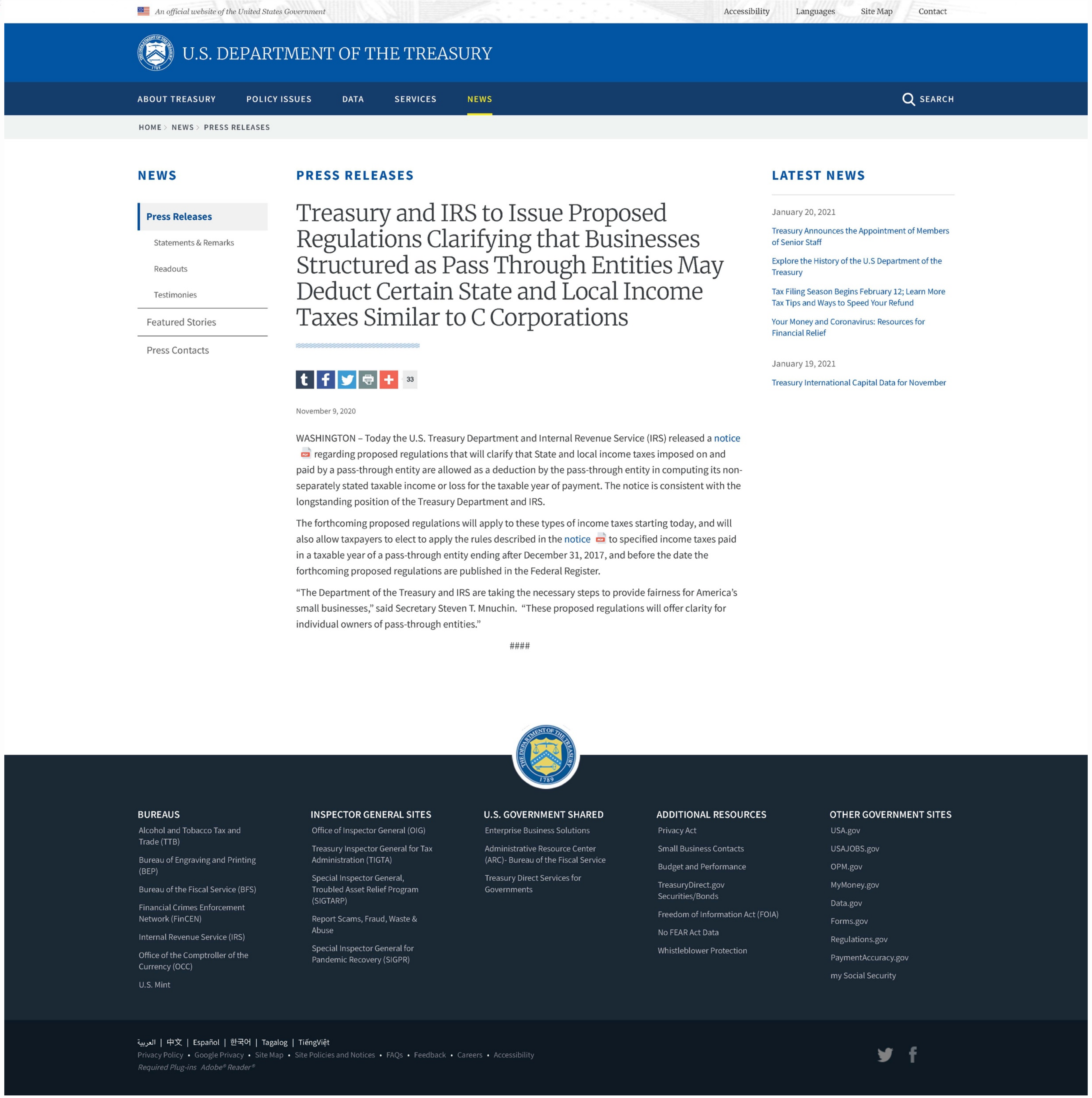


*Includes full double tax for C corps and 3.8% NIIT for S Corps

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



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PRESS RELEASES

Treasury and IRS to Issue Proposed Regulations Clarifying that Businesses Structured as Pass Through Entities May Deduct Certain State and Local Income Taxes Similar to C Corporations

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November 9, 2020

WASHINGTON – Today the U.S. Treasury Department and Internal Revenue Service (IRS) released a notice regarding proposed regulations that will clarify that State and local income taxes imposed on and paid by a pass-through entity are allowed as a deduction by the pass-through entity in computing its non-separately stated taxable income or loss for the taxable year of payment. The notice is consistent with the longstanding position of the Treasury Department and IRS.

The forthcoming proposed regulations will apply to these types of income taxes starting today, and will also allow taxpayers to elect to apply the rules described in the notice to specified income taxes paid in a taxable year of a pass-through entity ending after December 31, 2017, and before the date the forthcoming proposed regulations are published in the Federal Register.

“The Department of the Treasury and IRS are taking the necessary steps to provide fairness for America’s small businesses,” said Secretary Steven T. Mnuchin. “These proposed regulations will offer clarity for individual owners of pass-through entities.”

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LATEST NEWS

January 20, 2021

- Treasury Announces the Appointment of Members of Senior Staff
- Explore the History of the U.S Department of the Treasury
- Tax Filing Season Begins February 12; Learn More Tax Tips and Ways to Speed Your Refund
- Your Money and Coronavirus: Resources for Financial Relief

January 19, 2021

- Treasury International Capital Data for November

BUREAUS: Alcohol and Tobacco Tax and Trade (TTB); Bureau of Engraving and Printing (BEP); Bureau of the Fiscal Service (BFS); Financial Crimes Enforcement Network (FinCEN); Internal Revenue Service (IRS); Office of the Comptroller of the Currency (OCC); U.S. Mint

INSPECTOR GENERAL SITES: Office of Inspector General (OIG); Treasury Inspector General for Tax Administration (TIGTA); Special Inspector General, Troubled Asset Relief Program (SIGTARP); Report Scams, Fraud, Waste & Abuse; Special Inspector General for Pandemic Recovery (SIGPR)

U.S. GOVERNMENT SHARED: Enterprise Business Solutions; Administrative Resource Center (ARC)- Bureau of the Fiscal Service; Treasury Direct Services for Governments

ADDITIONAL RESOURCES: Privacy Act; Small Business Contacts; Budget and Performance; TreasuryDirect.gov Securities/Bonds; Freedom of Information Act (FOIA); No FEAR Act Data; Whistleblower Protection

OTHER GOVERNMENT SITES: USA.gov; USAJOBS.gov; OPM.gov; MyMoney.gov; Data.gov; Forms.gov; Regulations.gov; PaymentAccuracy.gov; my Social Security

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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.

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

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

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 <u>no cost</u> to the state.

SALT Parity Reform Savings Example*

	CURRENT LAW Pass-Through Tax	SALT PARITY REFORM Entity Tax
Business Income	$1,000.00	$1,000.00
Restored SALT Deduction	N/A	$59.10
Net Taxable Income	$1,000.00	$940.90
State Tax	$59.10	$59.10
Federal Tax	$370.00	$348.10
Total Tax	$429.10	$407.20
	SALT SAVINGS	$21.90

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

THANK YOU.

Parity for Main Street Employers