



February 2021

The undersigned coalition of organizations support restoration of the full federal SALT deduction to North Carolina's Main Street business community.

The 2017 Tax Cuts and Jobs Act (TCJA) imposed a \$10,000 cap on the amount of State and local taxes (SALT) North Carolina taxpayers can deduct on their federal returns. In addition to individuals, this cap also applies to the income earned by North Carolina pass-through businesses organized as S corporations, partnerships, and LLCs.

As a result, North Carolina's 255,000* partnerships and S corporations are subject to tax rates up to to 1.9 percentage points higher than if they were allowed to fully deduct those taxes. These higher rates put many North Carolina Main Street businesses at a disadvantage to other pass-through businesses operating in states with no income taxes, like Tennessee and Florida, or those operating in states that have already adopted SALT Parity reforms.

Connecticut, Louisiana, Maryland, New Jersey, Oklahoma, Rhode Island, and Wisconsin have all passed similar SALT Parity reforms, while more than a dozen other states are actively considering it. In November 2020, the Internal Revenue Service announced that state and local taxes imposed at the entity level on pass-through entities are permitted as a deduction and that this treatment "is consistent with the longstanding position" of the agency.

To address this disparity, we support legislation to restore the full SALT deduction to North Carolina's pass-through businesses. Our proposed solution:

- Is revenue neutral to the state of North Carolina as the deduction reduces federal taxes owed;
- Provides an annual election for these businesses to pay their SALT at the entity level;
- Includes an income exemption, so that owners of businesses making the election are not subject to double taxation; and
- Provides North Carolina business owners with a credit for business taxes paid to other states that have adopted similar SALT Parity reforms.

This last suggestion is designed to ensure that businesses operating in multiple states are not disadvantaged by double taxation, and its increasingly important as the number of states adopting the SALT Parity reform grows.

Pass-through businesses are the backbone of our state's economy – they represent the majority of North Carolina businesses, they employ the majority of workers, and they have been particularly hard hit by the pandemic. The National Federation of



Protecting Businesses and Families. Empowering North Carolina's Economies

www.mainstreetemployers.org



Independent Businesses estimates one in five Main Street businesses are at risk of closing for good as a result of COVID-19.

SALT Parity will help these businesses better survive the pandemic by reducing their federal tax burden without reducing tax collections the state.

SALT Parity reform is a meaningful win-win for North Carolina and its business owners. It reduces taxes for our pass-through businesses, during a very difficult time, all at no cost to the state.

We look forward to discussing this issue with you.

Sincerely,

Independent Insurance Agents of NC
National Federation of Independent Business
NC Automobile Dealers Association
NC Beer and Wine Wholesalers Association
NC Home Builders Association
NC Retail Merchants Association
NC REALTORS
NC Petroleum & Convenience Marketers
Redwood Capital Investments/Allegis/Maxim Companies
S Corp Association

*Table 3. Number of Returns and Other Forms Filed, by Type and State, FY 2019 - 2019 Internal Revenue Service Data Book

