

MAIN STREET EMPLOYERS AND SALT

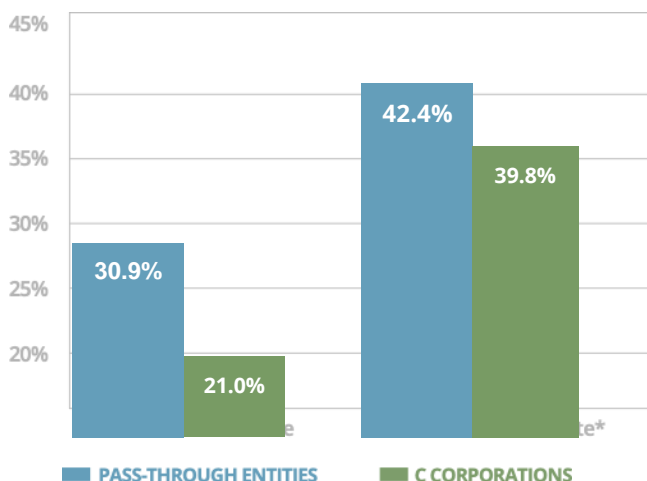
Protecting businesses and the families they support.
Empowering state and local economies.

WHAT'S AT STAKE: The 2017 Federal SALT cap hurts main street employers and threatens state economies.

The 2017 Federal Tax Cuts 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 for main street businesses 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 SALT parity reform.

RECOVERING FROM COVID-19: SALT parity reform will provide immediate relief for main street employers and the families they support while remaining revenue neutral for state tax receipts.



On average the SALT cap raises tax rates for pass-through entities by 1.3% - 1.6%.

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



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

REVENUE NEUTRAL FOR STATES

The taxes paid to states by the entity don't change.
Savings to Businesses come from a reduction in Federal taxes paid by the business.

21 states have adopted SALT parity legislation since 2017:

- Connecticut Act 18-49 (enacted 5/31/18)
- Wisconsin Act 368 (enacted 12/14/18)
- Oklahoma H.B. 2665 (enacted 4/29/19)
- Louisiana Act 442 (enacted 6/22/19)
- Rhode Island H. 5151A (enacted 7/7/19)
- New Jersey P.C. 2019, Ch. 320 (enacted 1/13/20)
- Maryland S.B. 0523 (enacted 7/1/20)
- Alabama Act 2021-1 (enacted 2/12/21)
- Arkansas (enacted 3/15/21)
- Idaho H.B. 317 (enacted 4/15/21)
- New York (enacted 4/21/21 via budget passage)
- Georgia H.B. 149 (enacted 5/04/21)
- South Carolina S 627 (enacted 5/17/21)
- Illinois S.L. 102-0658 (enacted 8/27/21)
- Colorado HB21-1327 – (enacted 6/21/21)

- Arizona H.B. 2838 – (enacted 7/9/21)
- Minnesota HB 9 – (enacted 7/1/21)
- California AB150 – FY 2022 Budget – (adopted 7/2/21)
- Massachusetts H.4009 – (adopted 9/30/21)
- North Carolina – S.105 (enacted 11/18/21)
- Michigan – H.B. 536 (enacted 12/21/21)

SALT parity legislation is being pursued in number of other states:

- Ohio (Bill Introduction October)
- Virginia (Legislative Draft Pending)
- Pennsylvania (Legislative Draft Pending)

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 of Treasury

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

Allows pass-through entities to elect to pay SALT on their income at the entity level. For companies that make this election, SALT reform will:

1. Allow Main Street businesses to fully deduct their state and local taxes from their federal tax returns.
2. Keep revenue earned by businesses organized as PTE’s at work in local states and communities.
3. Provides parity with C-Corporations that were not impacted by the 2017 federal tax act.

Example of pass-through entity taxes assessed on an individual

	CURRENT LAW	SALT PARITY REFORM		
		Entity Tax	Individual Tax	Combined Tax
Business Income	\$150,000	\$150,000	N/A	
Wages	\$50,000	N/A	\$50,000	
Total Income	\$-	\$150,000	\$50,000	\$200,000
State Tax	\$8,500	\$6,375	\$2,125	\$8,500
Federal Tax	\$29,149	N/A	\$27,715	\$27,715
Total Tax	\$37,649			\$36,215

SALT PARITY TAX RELIEF → \$1,435

