

Main Street Employers and SALT

Protecting Michigan Businesses and the Families They Support.
Empowering State and Local Economies.

Vol. 3 - March 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 other states, like Wisconsin and Minnesota, that have already adopted this reform or are currently considering SALT parity legislation.

The majority of businesses in the U.S. are organized as pass-through entities that employ most private-sector workers. **In Michigan, this includes nearly 250,000 pass-through entities that are paying higher taxes as a result of the SALT cap.**

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 hundreds of thousands of main street employers in Michigan, diminishing the state's competitiveness and threatening state and local 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.
- Denying the full SALT deduction for S corporations, partnerships and LLCs has increased federal tax rates for many of the nearly 250,000 businesses organized as pass-through entities in Michigan.
- Driving up Michigan's tax burden undermines the state's competitiveness by making it harder for businesses to recruit and retain skilled workers.

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.

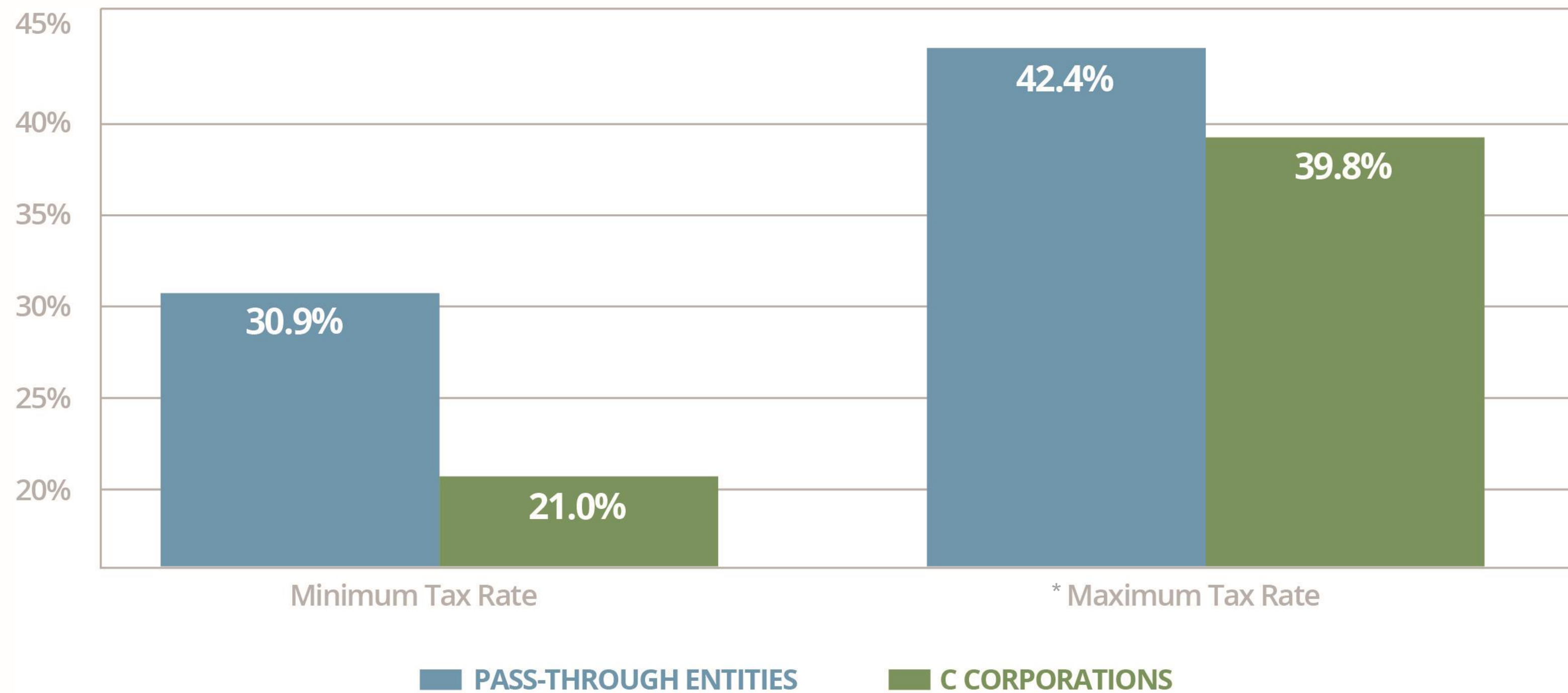


Neighboring state Wisconsin has already provided relief to main street employers with the adoption of SALT reform. and Minnesota is also currently considering SALT parity legislation.



The SALT cap puts main street employers at a distinct disadvantage to C corporations that have maintained the full SALT deduction.

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*



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



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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Parity for Main Street Employers

Protecting Businesses and Families, Empowering State and Local Economies

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)

Alabama (Budget Bill 2021)

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:

Arizona (H.B. 2838)

Arkansas (H.B. 1209)

California (S.B. 104 & Governor's Budget Bill)

Georgia (H.B. 149)

Illinois

Massachusetts (Governor's Budget Bill)

Michigan (H.B. 4288)

Minnesota (S.F. 263)

New York (Governor's Budget Bill & S.B. 2915)

North Carolina

Ohio

Pennsylvania

South Carolina (H 3978)



THE SOLUTION

A win-win for main street employers and the Michigan economies 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 equal to the top Michigan individual income tax rate.
2. Provide Michigan’s 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 MICHIGAN:

The taxes paid to Michigan don’t change. Any savings to Michigan 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.

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**



THANK YOU.

MainStreetEmployers.org

For more information, contact: NAME EMAIL ADDRESS



Parity for Main Street Employers