<u>**Information & Examples for consideration of HB 317**</u>

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Who does it impact?

This bill will impact owners, partners, members, and shareholders of electing partnerships, LLCs and S corporations (PTEs).

How does it impact those mentioned?

It allows owners, partners, members, and shareholders of electing in partnerships, LLCs and S corporations (PTEs) to deduct SALT paid at the PTE level rather than as an itemized deduction on their individual return, which is limited to a $10,000 deduction.

What does that mean for the taxpayer?

Depending on the marginal tax rate of the taxpayer, it provides a tax benefit as high as 2.56% per dollar of income.

EXAMPLE 1 $1,000,000 Taxable Income from PTE:

For example, a taxpayer who is a partner in a partnership that has $1,000,000 in taxable income from his pass-thru share of the partnership income who pays individual state taxes of $69,250 (Idaho's marginal rate of 6.925%) and pays local property taxes of $5,000 will have total state taxes of $74,925. Without legislation enacted to allow for a PTE workaround, the $74,925 paid is limited to a $10,000 deduction for federal tax purposes, limiting the income tax deduction for state income taxes paid to $5,000 after the property tax. If the state has enacted legislation allowing the SALT workaround, the taxpayer is able to elect to pay the same $69,250 of tax to the state and will receive a deduction at the entity level reducing the amount of pass-thru income reported on the federal return by the full $69,250 – an additional deduction of $64,250 versus no workaround enacted. Assuming a federal tax rate of 37%, this represents $23,773 savings in tax dollars paid to the federal government that can then be used by the business owner to invest in the state economy providing more jobs and revenues to the state.

EXAMPLE 2 $200,000 Taxable Income from PTE:

Another example for a more moderate income level. A taxpayer who is a partner of a partnership that has $200,000 of income from his pass-thru share of the partnership income who pays individual state taxes of $13,850 (Idaho's marginal rate of 6.925%) and pays local property taxes of $5,000 will have total state taxes of $18,850. Without a legislation enacted to allow for a PTE workaround, the $18,850 paid is limited to a $10,000 deduction for federal tax purposes – limiting the income tax deduction for state income tax to $5,000 after the property tax). If the state has enacted legislation allowing the SALT workaround, the taxpayer is able to elect to pay the same $13,850 of tax to the state and will receive a deduction at the entity level reducing the amount of pass-thru income reported on the federal return by the full $13,850 an additional deduction of $8,850 versus no workaround enacted. Assuming a federal tax rate of 24%, this represents $2,124, savings in tax dollars paid to the federal government that again can then be used by the business owner to invest/spend in the state economy providing more jobs and revenues to the state.

EXAMPLE 3 $50,000 Taxable Income without Itemizing Deductions:
If an individual does not itemize deductions (typically those individuals without mortgage interest and charitable contributions in addition to the allowable $10,000 SALT deduction totaling $24,000), the taxpayer is not limited to a $10,000 state tax deduction, but rather receives NO benefit for the state taxes paid whatsoever. Again, the workaround allows those individuals to receive a deduction for taxes paid at the PTE level. A taxpayer with $50,000 taxable income from their share of pass-thru income from a PTE that elects to pay $2,648 in state PTE taxes would save $351 in federal income tax.

What is the impact to state revenue?

None. This bill is revenue-neutral. The state will receive the same revenue whether the income tax is collected on the pass through income taxed at the individual level or income taxed at the PTE level.

Link to IRS Rev Proc 2020-75:
https://www.irs.gov/newsroom/irs-provides-certainty-regarding-the-deductibility-of-payments-by-partnerships-and-s-corporations-for-state-and-local-income-taxes

States with SALT Workaround Legislation – UPDATE

From our research, to date we know of 8 others states that have legislation similar to this. Of those 8 states, 7 bills are reportedly Revenue Neutral, 1 is Revenue Positive. Of the additional 6 states we know have proposed similar legislation, 4 states are considering Revenue Neutral bills, 1 is considering a Revenue Positive bill.

At this point these eight states that have enacted similar legislation include: Alabama (Revenue Neutral), Connecticut (State Revenue Positive), Louisiana (Revenue Neutral), Maryland (Revenue Neutral), New Jersey (Revenue Neutral), Oklahoma (Revenue Neutral), Rhode Island (Revenue Neutral), and Wisconsin (Revenue Neutral).

At least six more states have proposed legislation: Arkansas (Revenue Neutral), Michigan (State Revenue Positive), Minnesota (Revenue Neutral), California (Revenue Neutral), and New York (Revenue Neutral).