

Pass Through Entity Tax: Intro

- Three Presentations:
 - Michael Gallagher: Connecticut Dept. of Revenue Services
 - Zach Petersen: Wisconsin Dept. of Revenue
 - William Irving: New Jersey Dept of Revenue
- Moderator: Steven Giachetti

SALT Workarounds

- Limitation on SALT deductibility imposed by TCJA sets off a “frenzy” to find workarounds
- Key features of these is that businesses are not subject to the SALT limitation, and charitable deductions are not impacted by TCJA

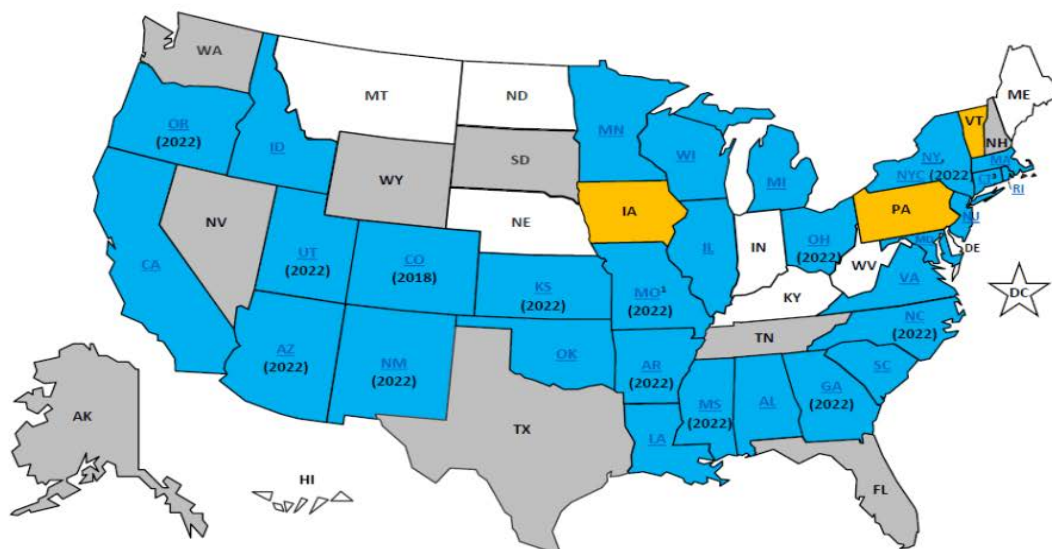
Proposed SALT Workarounds

- Charitable Deductions- transform income taxes into charitable deductions to States to fund their operations. Some precedents for this, but these were small in scale. **Did not pass legal muster**
- In Exchange for lower wages, individual could claim deductible payroll taxes. While in principle, this could work, complicated due to other considerations (Labor Contracts, Retirement/Social Security contributions. **Too complicated**
- Enable pass through filers to pay taxes as businesses rather than individuals : **Works** but limited to pass through income

29 States have so far enacted PTET

States with Enacted or Proposed Pass-Through Entity (PTE) Level Tax

As of August 31, 2022



● 29 states (& 1 locality) that enacted a PTE tax since TCJA SALT deduction limitation, effective for 2021 (or earlier) unless noted:
[AL](#), [AR](#)¹, [AZ](#)¹, [CA](#), [CO](#)², [CT](#)³, [GA](#)¹, [ID](#), [IL](#), [KS](#)¹, [IA](#), [MA](#), [MI](#), [MD](#), [MN](#), [MO](#)¹, [MS](#)¹, [NC](#)¹, [NJ](#), [NM](#)¹, [NY](#), [OH](#)¹, [OK](#), [OR](#)¹, [RI](#), [SC](#), [UT](#)¹, [VA](#), [WI](#), and [NYC](#)¹

¹ Effective in 2022 or later – on map (2022) or (2023)

² Retroactive to 2018

³ Mandatory

● 3 states with proposed PTE tax bills:
IA – [HF 2087](#), session over, not enacted
PA – [HB 1709](#), in committee
VT – [H.0527](#), session over, not enacted

● 9 states with no owner-level personal income tax on PTE income:
AK, FL, NH, NV, SD, TN, TX, WA, WY

○ 10 states with an owner-level personal income tax on PTE income that have not yet proposed or enacted PTE taxes:
DE, HI, IN, KY, ME, MT, NE, ND, VT, WV



Topics for Discussion Today

- How much PTET Revenue has been raised ?
- Are PTETs designed to be Revenue Neutral ?
- Optional or Mandatory for Pass Through Filers ?
- What are the interactions with Personal Income Estimated Payments ?
- 2025 Sunset ?