



April 5, 2021

TO: Members, Senate Appropriations Committee

FROM: Automotive Service Councils of California
 Bay Area Builders Exchange
 Cal Chamber
 California Asian Chamber of Commerce
 California Association of REALTORS
 California Autobody Association
 California Automotive Business Coalition
 California Beer & Beverage Distributors
 California Builders Alliance
 California Business Properties Association
 California Business Roundtable
 California Craft Brewers Association
 California Delivery Association
 California Food Producers
 California Golf Course Owners Association



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California Hispanic Chambers of Commerce
California Manufacturers & Technology Association
California Medical Association
California New Car Dealers Association
California Pool & Spa Association
California Retailers Association
California Small Business Association
California Tire Dealers Association
Coalition of Small & Disabled Veteran Businesses
El Dorado County Chamber of Commerce
Elk Grove Chamber of Commerce
Family Business Association of California
Flasher Barricade Association
Golden Gate Restaurant Association
Independent Automotive Professionals Association
National Federation of Independent Business
Orange County Business Council
Painting & Decorating Contractors Association
Plumbing-Heating-Cooling Contractors of California
R Street Corridor
Rancho Cordova Chamber of Commerce
Roofing Contractors Association of California
Sacramento Region Builders Exchange
Small Business California
The Wine Institute
United Chamber Advocacy Network
United Chambers of Commerce of the San Fernando Valley
Valley Contractors Exchange
Ventura County Contractors Association
Yuba-Sutter Chamber of Commerce

Sent via email

SUBJECT: SB 104 (McGuire) – SALT Parity Reform

The above-listed organizations wish to convey support for SB 104 (McGuire), which provides California businesses SALT parity reform.

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

As a result, California's one million partnerships and S corporations are subject to tax rates 2.8 to 3.4 percentage points higher than if they were allowed to fully deduct those taxes. These higher rates put many California Main Street businesses at a disadvantage to pass-through businesses operating in states with no income taxes or those operating in states that have already adopted SALT parity reforms.

To address this disparity, SB 104 restores the full SALT deduction to California's pass-through businesses. The bill:

- Is revenue neutral to the State of California, as the restored deduction reduces federal, not state, taxes owed;
- Provides an election for these businesses to pay their SALT at the entity level;



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- Includes a tax credit so that owners of businesses making the election are not subject to double taxation; and
- Provides California business owners with credit for business taxes paid to other states that have adopted similar SALT Parity reforms.

Nine states have all passed similar SALT parity reforms, while ten 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.

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

SB 104 is a win-win for California and its business owners. It reduces taxes for our pass-through businesses during a very difficult time, all at no cost to the state.

For these reasons, we urge your support of SB 104.

cc: Senator McGuire
Assembly Member Burke
Dee Dee Meyers, GoBiz
Jay Chamberlain, Dept. of Finance

