

March 19, 2021

TO: Members, Senate Budget Governance & Finance Committee

FROM: (Client Name)

SB 104 – SUPPORT

On behalf of my client, **(name)**, I wish to convey their support for SB 104 (McGuire) that is designed to assist California businesses.

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 his or her federal taxes. This policy, known as the SALT Cap, hurts people and businesses across California.

Comprehensive federal action on this issue is unlikely to provide any relief to Californians any time soon; therefore, any meaningful action on SALT reform rests with the state.

SB 104 allows Sub-Chapter S corporations and other pass-through entities to make an election to pay a 9.3% tax at the entity level and allow the shareholders have a 9.3% credit on the amount of pass-through income. This would have the effect of restoring the federal income tax deduction to individuals and small businesses when filing federal income tax returns without changing the total California income tax owed. The legislation is revenue neutral to California. By making conforming changes to the CA tax code, pass-through business entities will not be subject to the \$10,000 limitation enacted in the 2017 federal law. There are six states that have passed similar entity tax bills.

The \$10,000 limitation impacts all individuals including small business owners, since most small businesses are organized as pass-through entities ("PTE") (e.g. partnerships, limited liability companies, and S-corporations) that pay income taxes related to business income on the owner's individual income tax returns. C Corporations are allowed an unlimited Salt Deduction giving them an advantage over S corporations.

Under SB 104, taxpayers who earn income from pass-through businesses and pay the pass-through business alternative income tax can obtain a refundable gross income tax

credit. There is no limit on the deduction of state taxes paid at the entity level under the federal Tax Cuts and Jobs Act (TCJA), only at the individual income level.

This business-friendly plan will bolster the growth of businesses in CA and promotes a favorable economic climate. This legislation is a vital step in mitigating the impact of the federal tax law that has a negative impact on many CA business owners.

For these reasons, we encourage **SUPPORT** for SB 104.

cc: Senator Mike McGuire
Senator Anna Caballero
Assembly Member Autumn Burke
Assembly Member David Chiu
Dee Dee Meyers, Director, GoBiz