



March 16, 2021

TO: Governor Gavin Newsom
Members, California State Legislature

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



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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
California Pool & Spa Association
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
Painting & Decorating Contractors Association
Plumbing-Heating-Cooling Contractors of California
R Street Corridor
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

Sent via email

SUBJECT: STATE AND LOCAL TAX (SALT) REFORM FOR CA BUSINESSES

Governor and Members of the Legislature:

The members of the broad-based coalition supporting SALT reform for California businesses commend the legislature and Newsom administration for recognizing that actions can be taken to assist a wide range of businesses that were severely impacted by tax policy changes of the previous federal administration.

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. It also is inequitable as our state sends billions of more tax dollars to Washington, DC than it receives in return.

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

Additionally, the IRS has acknowledged this approach for states to allow pass through entities (PTEs) to pay their state and local taxes at the entity level. As a result, numerous states are adopting legislation to do so.

The current proposal, offered by the Governor and the Legislature, provides an opportunity for the State to act to provide some relief from the SALT Cap.

The changes being proposed will assist real Main Street businesses. If drafted carefully, this legislation will help a wide swath of businesses including physician and dental practices, automotive dealerships, insurance agents, independent retail store owners, and family farms, to name a few. Many of these types of businesses continue to be hit hard by the COVID pandemic.



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Best yet, this proposal is revenue neutral for California. The tax receipts to California do not change. Any savings to California businesses come from a reduction in federal taxes paid. Therefore, it is a significant step to right the wrong being done to Californians by the SALT Cap, and to keep California tax dollars at work within the state's economy.

The proposal allows businesses organized as LLCs, Partnerships, and S-Corporations, all of which pay individual state tax rates, to restore deductibility of state and local taxes at the federal level.

However, to benefit the most businesses in the state, it is essential for the final legislation to include these key elements:

1. **Defining eligibility to include as many types of small- and medium-sized businesses** – Initial drafts limited eligible businesses to S-Corporations with “individual” owners only. That limitation excludes a broad segment of family-owned businesses, both large and small, who use trusts, partnerships and other common forms of ownership to help with estate and succession issues. SB 104 expands eligible shareholders from S-Corporations with “individual” owners to individuals, partnerships, trusts, estates and charities that will help more of California's Main Street businesses.
2. **Recognize out-of-state income to shareholders** – This will help prevent California businesses from being subjected to a potential double tax in other states. Successful SALT reform for California should recognize income from other states. Such a provision will essentially allow California companies to get credit off their federal returns for taxes paid to other states.
3. **Set the entity level tax rate imposed to 9.3% or lower** – As with recent amendments to SB 104, setting the entity level tax rate at 9.3% will help smaller-sized California Main Street businesses with middle incomes to benefit from a PTE election.

We greatly appreciate your recognition that steps can be taken to assist small- to medium-sized businesses in the state. That assistance is needed now more than ever. Our coalition looks forward to working with you to support a final product that helps the greatest number of businesses in the state.

cc: Senator McGuire
Assembly Member Burke
Dee Dee Meyers, GoBiz
Che Salinas, Office of the Governor
Jay Chamberlain, Dept of Finance

