



Defending America's Individually & Family Owned Businesses

S-CORP BOARD

MEMORANDUM

CHAIRMAN
Anthony Simmons
McIlhenny Company
Avery Island, LA

To: The Hon. Paul Marquart, Chair of the Tax Committee

From: Brian Reardon, President, S Corporation Association

PRESIDENT
Brian Reardon
Reardon Consulting, LLC
Washington, DC

Date: May 7, 2020

TREASURER
Bob Dickinson
CoorsTek, Inc.
Golden, CO

Subject: Proposed PTE Election for Minnesota Pass Through Businesses

Cathy S. Brown
Ferrellgas, Inc.
Overland Park, KS

The S Corporation Association strongly supports HF 3389 and its provision to restore the Federal SALT deduction to Minnesota's S corporation, partnerships, and LLCs.

Marilyn Franson
Amsted
Chicago, IL

The Federal Tax Cuts and Jobs Act (TCJA) capped the ability of pass-through businesses to deduct their State and local taxes (SALT) on their Federal returns. While C corporations are still able to deduct their SALT, pass-through businesses (S corporations, partnerships, LLCs, and sole proprietorships) were subject to the new \$10,000 cap that applies to individuals.

Christopher Hersey
Cross Financial
Portland, ME

Deborah Jacob
MJS Packaging
Livonia, MI

As a result of this policy, Minnesota's nearly 170,000 partnerships and S corporations could be subject to tax rates 2.9 to 3.6 percentage points higher than if they were allowed to deduct those legitimate expenses. These higher rates put them at a disadvantage compared to C corporations and other pass-through business operating in states with no income taxes -- or, as in the case of neighboring Wisconsin, states that have already adopted the SALT Parity legislation described below.

Clarene Law
Elk Country Motels, Inc.
Jackson Hole, WY

To address this disparity, we support HF 3389 to allow passthrough businesses to elect to pay their Minnesota taxes at the entity level and thereby restore the full SALT deduction. Specifically, the bill:

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McGregor Metalworking
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- Provides an election for Minnesota S corporations, LLCs, and partnerships to pay their state and local taxes at the entity level;
- Includes an income exemption, so that owners of businesses making the election are not subject to two layers of tax; and
- Provides business owners with a credit for business taxes paid to other states, like Wisconsin, that have already adopted similar SALT Parity reforms.

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This last provision is designed to ensure that businesses operating in multiple states are not disadvantaged by double taxation, and its increasingly important as the number of



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states adopting our SALT reform is growing. To date, six states have adopted the reform while four others are actively considering it:

Enacted:

- Connecticut S.B. 11 (enacted May 31, 2018)
- Wisconsin S.B. 883 (enacted Dec. 14, 2018)
- Oklahoma H.B. 2665 (enacted April 29, 2019)
- Louisiana Senate Bill 223 (enacted June 22, 2019)
- Rhode Island H. 5151A (enacted July 7, 2019)
- New Jersey S. 3246 (enacted January 13, 2020)

Actively considering:

- Arkansas H.B. 1714
- Maryland SB0523 and HB0129 (Sitting on the Governor's desk)
- Alabama ()
- Michigan SB 1170 (Initial bill vetoed by Governor)

Finally, it is important to note that this reform is designed to be revenue neutral -- the revenues paid to Minnesota through the entity level tax should equal the revenues that would have otherwise been paid by owners. This reform, therefore, is a win/win for the state and its pass-through businesses. Minnesota businesses enjoy the restoration of their full SALT deduction and the State makes its Main Street employers more competitive, all at no cost.

For these reasons, the S Corporation Association strongly supports HF 3389 and asks the members of this Committee to vote in favor of this legislation.

Cc Rep. Greg Davids
Members of the Tax Committee