



New Tax Savings – Do You Qualify?

By Richard Warner, Partner, Smith Dickson CPAs, LLP

Recently, California Governor Newsom signed SB 113 into law, greatly expanding the benefits of the elective pass-through entity tax commonly referred to as the SALT workaround. Here is some background and highlights of the enhanced tax savings and reduced eligibility requirements.

Under the Tax Cuts and Jobs Act of 2018, taxpayers could only deduct a yearly combined maximum of \$10,000 of their state income taxes and property taxes on their federal tax return, which became known as the SALT limitation.

Last year, with the passing of AB 150, a workaround to the SALT deduction cap became available allowing pass-through entities (PTEs) to deduct their state tax payments as a business expense at the entity level, bypassing the \$10,000 SALT deduction limit at the individual level. But there were still significant restrictions to the strategy.



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With the signing of SB 113 in February 2022, the following restrictions were loosened:

- A qualified PTE now includes PTEs with partnership owners.
- Single-member limited liability companies that are pass-through owners are now eligible to claim the elective tax credit.
- The tentative minimum tax limitation on the elective tax credit is repealed for tax years beginning on or after January 1, 2021.
- Income taxed under the PTE election now includes guaranteed payments made to owners.
- PTE credit can now be used to offset tentative alternative minimum tax.
- Effective 2022, the PTE credit can be utilized against an individual's California personal income tax liability after the credit for taxes paid to other states.

Smith Dickson CPAs are available to guide businesses in evaluating eligibility for the California pass-through entity-level tax, application based on their current structure, and consideration of potential benefits and risks.

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