Senator George Lang
4th Senate District

Senator Michael Rulli
33rd Senate District

MEMORANDUM

To: **All Senate Members**
From: **State Senators George Lang and Michael Rulli**
Date: **September 27, 2021**
Re: **Co-Sponsor Request: SALT deduction to Ohio's Main Street business community**

We will soon introduce legislation aimed at restoring the full federal State and local taxes (SALT) deduction for Ohio's small business community. The 2017 Tax Cuts and Jobs Act (TCJA) imposed a $10,000 cap on the amount of SALT Ohio taxpayers can deduct on their federal returns. In addition to individuals, this cap also applies to the income earned by Ohio pass-through businesses organized as S corporations, partnerships, and LLCs.

As a result, Ohio's partnerships and S corporations are essentially subject to higher tax rates than if they were allowed to fully deduct those taxes. These higher rates put many businesses at a disadvantage to other pass-through businesses operating in states with no income taxes, like Tennessee and Florida, or those operating in states that have already adopted SALT Parity reforms.

Arizona, Minnesota, California, Colorado, Georgia, South Carolina, Illinois, New York, Alabama, Connecticut, Arkansas, Louisiana, Maryland, New Jersey, Oklahoma, Rhode Island, Idaho, Massachusetts, and Wisconsin have all passed similar SALT Parity reforms, while more than a dozen 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.

To address this disparity, this legislation seeks to restore the full SALT deduction to Ohio's pass-through businesses. Our proposed legislation:

- **Is revenue neutral to Ohio as the deduction reduces federal taxes owed;**
- **Provides an election for these businesses to pay their SALT at the entity level;**
- **Includes an income deduction, so that owners of businesses making the election are not subject to double taxation**

This last provision is designed to ensure that businesses operating in multiple states are not disadvantaged by double taxation, and it’s increasingly important as the number of states adopting the SALT Parity reform grows.

Pass-through businesses are the backbone of our state’s economy – they represent the majority of Ohio businesses, they employ the majority of workers, and they have been particularly hard hit by the pandemic. The National Federation of Independent Businesses estimates one in five Main Street businesses are at risk of closing for good as a result of COVID-19.

SALT Parity will help these businesses better survive the pandemic by reducing their federal tax burden without reducing tax collections the state.

SALT Parity reform is a meaningful win-win for Ohio and its business owners. It reduces taxes for our pass-through businesses, during a very difficult time, all at no cost to the state.

We hope you will join us in this important effort to aid and protect Ohio businesses. If you would like to co-sponsor this legislation, please contact Ryan Hennigan at Ryan.Hennigan@ohiosenate.gov or Michael Peppel at michael.peppel@ohiosenate.gov. **The deadline for co-sponsorship will be October 1, 2021.**

Thank you for your consideration.