



MEMORANDUM

To: Members of the Michigan House Tax Policy Committee

From: **Dan Papineau** - Michigan Chamber of Commerce, **Alexa Kramer** – Grand Rapids Chamber of Commerce, **Steve Japinga** – Lansing Regional Chamber of Commerce, **Mike Johnston** – Michigan Manufacturers Association, **Jimmy Greene** - Associated Builders and Contractors of Michigan, **John McNamara** – Michigan Restaurant and Lodging Association, **Scott Ellis** – Michigan Licensed Beverage Association, **Brad Ward** – Michigan Realtors, **Ed Weglarz** – Midwest Independent Retailers Association, **Charlie Owens** – National Federation of Independent Business, **Brian Calley** – Small Business Association of Michigan, **Dawn Crandall** – Michigan Homebuilders Association, **Matt Wesolek** – Big i Michigan (Formerly Michigan Association of Independent Insurance Agents), **Amy Drumm** – Michigan Retailers Association, **Kurt Berryman** – Auto Dealers of Michigan, **Rebecca Park** – Michigan Farm Bureau, **Veronica Horn** – Saginaw County Chamber, **Stacie Bytwork** – Northern Michigan Chamber Alliance, **Warren Call** – Traverse Connect, **Martin Manna** – Chaldean American Chamber of Commerce

Date: March 3, 2021

Subject: Please Support Passthrough Business Tax Parity

Please support HB 4288, legislation that will restore tax parity between large C-corporations and smaller “pass-through” businesses.

Pass-through businesses are ones NOT organized as a C-corporation but as an S-corporation, partnership or limited liability company. These businesses differ from large C-corporations because a pass-through business’s income “passes through” to the owner where the owner pays personal income taxes on the income from their business.

Smaller, pass-through business are the backbone of Michigan’s economy. Found mostly on mainstreets all across our communities, they represent the majority of Michigan businesses, they employ the majority of the state’s workers, and they have been particularly hard hit by the pandemic.

HB 4288 can help these businesses at a difficult time. The 2017 Tax Cuts and Jobs Act cap on State and local tax (SALT) deductions applies to many of Michigan's 250,000 resident owners of S-corporations, partnerships and limited liability companies. This loss results in tax rates 1.3 to 1.6 percentage points higher than if they were allowed to fully deduct those taxes like C-Corporations are allowed to do. This puts Michigan businesses at a disadvantage compared to businesses operating in states with no income taxes or those, like Wisconsin, operating in states that have already adopted SALT parity.

HB 4288 would address this disparity and restore the full SALT deduction to Michigan's pass-through businesses without reducing revenues collected by the state. The legislation:

- Provides an election for pass-through businesses to pay their SALT at the entity level;
- Includes an income exemption, so that owners of businesses making the election are not subject to double taxation; and
- Provides Michigan business owners with a credit for taxes paid to other states that have adopted similar SALT parity reforms.

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 states adopting the SALT parity reform grows. Connecticut, Louisiana, Maryland, New Jersey, Oklahoma, Rhode Island, 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 approved these efforts as "consistent with the longstanding position" of the agency.

SALT parity will help these businesses better survive the pandemic by reducing their federal tax burden without reducing tax collections to the state. It is a win-win for Michigan and its business owners.

We look forward to working with you to see this important reform adopted this year.