Pass-Through Entity Tax (PTET) Talking Points

PTE – Pass-through entity
PTET – Pass-through entity tax
SALT – State and local tax
SSTB – Specified service trades or businesses
QBI – Qualified business income

- The *One Big Beautiful Bill Act* unfairly targets SSTBs while leaving corporations' ability to deduct state and local taxes untouched.
- Community pharmacies, neighborhood doctors, your friendly veterinarian and local tax prep shops, among others, won't be able to deduct state and local taxes, but corporations like Walgreens, H&R Block and PetSmart can.
- Under this legislation, SSTBs (e.g., accountants, veterinarians, dentists, doctors, lawyers, nurses) are subject to the individual state and local tax deduction limits regardless of partners'/owners' income level or the state in which they live.
- By eliminating PTET for SSTBs, the legislation indirectly raises taxes on those entities that are considered the backbone of the American economy.
- According to a Tax Foundation report, the disallowance of the SALT deduction by SSTBs could reduce the U.S. GDP by 0.2 percent suggesting a broader negative effect on the economy.
- When Congress passed the Tax Cuts & Jobs Act of 2017 (TCJA), the $10,000 cap imposed on the deduction of state and local taxes (SALT) was a significant concern for pass-through businesses, and according to Kevin Brady it was not the Congressional intent.
- In the wake of TCJA, to ensure pass-through entities can access the same tax benefit that is offered to large corporations, many states enacted legislation to shift the SALT liability from the owner to the pass-through entity itself.
- The state legislation, approved by the IRS, mostly creates a level playing field between corporations and pass-throughs.
- The *One Big Beautiful Bill Act* unfairly targets SSTBs by excluding them from further deducting state and local taxes at the entity level, as is currently permitted, while imposing no such limitation on the federal deductibility of SALT for corporations.
- By eliminating the entity level deduction for pass-throughs, the bill is targeting service providers, who were already substantially limited under the SSTB rules for the QBI deduction.
- The targeting of SSTBs would discourage the creation and growth of such businesses and goes against many of the guiding principles of good tax policy (such as neutrality, fairness, simplicity, transparency, certainty), leading to inefficiencies and distortions in business decision-making.
- Additionally, the bill introduces significant complexity and uncertainty for all pass-throughs by requiring complex calculations to determine if they are eligible for any SALT deduction.

- Eliminating this deduction hurts American job creators and a recent poll from the Winston Group found that 82% of voters preferred equal SALT deduction treatment among corporations and small or family-owned businesses.
- Congress should continue to retain the ability for ALL pass-throughs, including SSTBs, to deduct entity-level state and local taxes at the federal level.