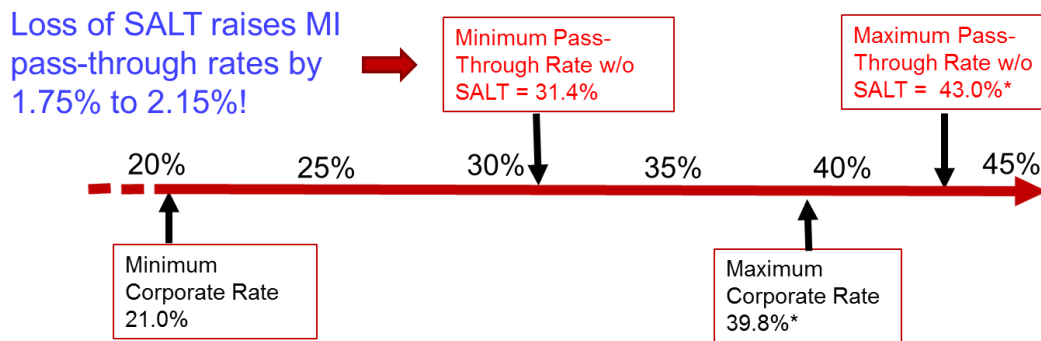


Restoring the Main Street SALT Deduction

The Challenge – Tax reform subjected deductions on state and local taxes (SALT) paid by pass-through business owners to the same \$10,000 cap as taxes paid on wages and property. Taxes paid by business entities, like C corporations, remain fully deductible.

Since most states, including Michigan, tax pass-through businesses at the owner level, this cap increases their tax rates and puts them at a competitive disadvantage compared to C corporations.



* Includes full double tax for C Corps and 3.8% NIIT for S Corps

It also puts Michigan businesses at a disadvantage compared to businesses operating in states that have no income tax, like Texas and Florida.

This is a BIG problem! According to the IRS, nearly 250,000 Michigan businesses are in danger of losing their SALT deduction this year -- 138,915 S Corporations and 107,675 Partnerships.

The Solution -- Michigan should change its laws to allow pass-through businesses the option of paying their taxes at the entity level. Specifically, the fix would:

- Allow MI pass-through business owners an annual election to pay SALT at the entity level;
- Give owners a credit for the taxes paid by the business to avoid double taxation; and
- Recognize the value of similar credits paid by other states to pass-through owners.

The resulting legislation would restore the deductibility of SALT to Michigan businesses at *no cost* to the state. It's a win-win for the State of Michigan and its pass-through businesses. Connecticut has adopted this reform. Michigan should too.