

## No Pass-Through Entity Tax

- \$1 million in S-Corp income
- \$0 PTE tax paid
- \$1 million Federal K1 distribution
- SALT Deduction Cap of \$10,000

~\$300,000 paid in federal taxes  
~\$84,000 paid in state taxes

## Pass-Through Entity Tax

- \$1 million in S-Corp income
- \$76,000 PTE tax paid
- PTE tax fully deductible at entity level
- \$924,000 Federal K1 distribution

~\$275,000 paid in federal taxes (Savings = \$25,000)  
~\$77,500 paid in state taxes (Savings = \$6,500)

### Problem

State loses \$6,500 from this taxpayer if we give them a full credit for pass-through entity taxes paid.



### Solution

Offer a Personal Income Tax credit of 90 cents for each \$1 of pass-through entity taxes paid.

### Pass-Through Entity Tax

- \$1 million in S-Corp income
- \$76,000 in PTE tax
- \$924,000 Federal K1 distribution
- \$68,400 credit for PTE taxes paid
- About \$275,000 paid in federal taxes
  - Federal savings of \$25,000
- About \$85,000 paid in state taxes
  - State taxes increase ~\$1,000
- Taxpayer still makes the election due to federal savings

**As a taxpayer's PTE income increases, their state tax liability increases, but they have a lower overall tax bill**

## How?

For each additional \$1 of PTE tax paid, the taxpayer:

- Gains at most \$.0875 of reduced state taxes (highest rate in VT 8.75%)
- Loses \$.10 because of the 90% credit (VT nets \$.0125)
- Gains likely between \$.24 and \$.37 of reduced federal taxes