

SALT WORK-AROUND

Client Name(s): _____
(Hereinafter referred to as "Client")

Tax Practitioner: Monica Haven, E.A.
(Hereinafter referred to as "EA")

If you are a shareholder, partner or member of an S corporation, partnership or LLC taxed as a partnership or S corporation, you might be able to significantly reduce your tax liability.

California recently passed Assembly Bill 150 (AB 150), which allows qualified S corporations, partnerships, or LLCs to pay tax on their individual, trust, or estate owners' share of the entity's qualified net income at the entity level. It also allows these owners to claim a credit for the tax paid on their California personal income tax return. This means you may reduce your federal taxable income by the amount of tax paid, and you may also qualify to claim a 100% California credit equal to the amount of the entity tax paid on your share of the entity's income.

This tax treatment is commonly referred to as the state and local tax (SALT) work-around. As you may remember, the federal Tax Cuts and Jobs Act reduced the amount of the SALT deduction individuals can claim on their federal tax return to \$10,000 starting with the 2018 tax year. This resulted in significant tax increases to taxpayers with high property and state income tax liabilities.

AB 150 provides much welcome relief because the taxes paid on your share of the passthrough income will not be counted toward your \$10,000 state and local tax deduction limit. However, there are limitations related to California's Tentative Minimum Tax that limit this benefit for some taxpayers. We may need to run a tax projection to see if you would benefit from paying this elective tax.

This may be quite beneficial, but there are a lot of factors to consider in evaluating whether it makes sense for a passthrough entity to make the election, and whether you should consent to have the entity pay tax on your share of the entity's income.

It is already too late to receive the full benefit of this work-around for the 2021 tax year as the entity would have had to make its tax payments by December 31, 2021. But the work-around may provide a planning opportunity for 2022 and beyond.

CAVEAT: It is rumored that Congress may (?) increase or even eliminate the SALT cap in its entirety before the 2022 midterm elections. While the work-around could be used by existing pass-through entities, it may be too soon to create a new pass-through entity just for the purpose of circumventing the SALT cap.

Client Signature: _____	Date: _____
Print Client's Name: _____	
Spouse Signature: _____	Date: _____
Print Spouse's Name: _____	

Monica Haven, EA, JD, LLM

1534 South Edris Drive * Los Angeles, CA 90035 * (310) 286-9161 * FAX (310) 557-1626
e-mail: mhaven@pobox.com * website: www.mhaven.net