

## House Version of *One Big Beautiful Bill Act* PTET SALT deduction: **Fact** or **Fiction?**

**Overall, the *One Big Beautiful Bill Act* is a pro-business growth package that will help pass-through entities.**

**FICTION:** For pass-through entities that are also considered specified service trades or businesses ([SSTBs](#)- businesses wherein the skill or reputation of the owner is the principal asset), the proposals in the *One Big Beautiful Bill Act* (OBBA) amount to a net loss (i.e., increased taxes). The intent of the legislation is to stimulate growth for businesses by addressing expiring provisions of the Tax Cuts and Jobs Act of 2017 (TCJA). The OBBA does include various proposals which are beneficial to pass-through entities (PTEs), such as expensing of section 174 expenditures, reinstatement of the EBITDA limitation under section 163(j), and retention of the section 199A deduction. However, the proposal disallows PTEs that are SSTBs from taking the state and local tax (SALT) deduction, which outweighs any of the benefits.

Our laws should not discourage the formation of critical service-based businesses and, therefore, disincentivize professionals from entering such trades and businesses. Furthermore, the Tax Foundation reported that disallowing state and local income tax deductions to SSTBs would reduce U.S. GDP by 0.2% and the capital stock by 0.3% and “This suggests that the removal of PTET mechanisms could have a negative effect on the broader economy.”

**The OBBB makes the section 199A deduction permanent and expands it to 23%, helping millions of small businesses.**

**FACT:** The OBBB made permanent the qualified business income (QBI) deduction under section 199A and increased it from 20% to 23%. The OBBB also technically would expand the eligibility of the QBI deduction to all SSTB owners. However, in practicality, the expanded eligibility fails to capture many additional SSTB owners.

**The OBBB allows all pass-through entities that qualify for the QBI deduction to take an uncapped amount of SALT deduction.**

**FICTION:** The OBBB would unfairly exclude SSTBs from deducting any state and local income taxes at the partnership level, as is currently permitted, regardless of income levels. The targeting of SSTBs would indirectly increase taxes on millions of service-based businesses and further expand the disparity in how the tax code treats corporations versus PTEs. 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.

**It seems that the disallowance of SSTBs from taking the PTET SALT deduction is being used to pay for other proposals in the bill, while corporations remain untouched.**

**FACT:** By restricting SSTB's from taking a SALT deduction, a pharmacist operating as a partnership cannot take the SALT deduction because the field of health is an SSTB, but CVS (operating as a pharmaceutical corporation) can take a SALT deduction. Similarly, a local accountant can't take the unlimited SALT deduction, but H&R Block can. The disallowance of the SALT deduction for SSTBs indirectly increases the tax rate for these types of businesses.

**It seems that the PTET SALT deduction only benefits the high-income owners, so it doesn't matter if SSTBs are restricted from taking the SALT deduction.**

**FICTION:** The way the OBBB is drafted, an SSTB pass-through entity is not allowed to take a SALT deduction regardless of their income level. For example, if a self-employed actuary or bookkeeper (any SSTB) earns less than \$100,000, they would be disallowed from taking the SALT deduction.

**The current PTET SALT deduction calculation is complicated, to the point where it wouldn't be terrible if PTET SALT deductions are eliminated.**

**FICTION:** The OBBB introduces significant complexity and uncertainty for all PTEs as they would be required to perform complex calculations and analysis to determine if they are eligible for any SALT deduction. To determine eligibility for state and local income taxes, non-SSTBs would need to perform a gross receipts calculation. To determine eligibility for all other state and local taxes, PTEs would need to determine eligibility under the substitute payments provision (another complex set of calculations).

**I live in a state that does not have a state income tax. The PTET SALT deduction limitation does not impact me.**

**FICTION:** The OBBB would introduce significantly greater complexity by disallowing all SALT deductions generally for PTEs and then carving out exceptions based on a number of criteria (i.e., qualifying entity determination, applicability of substitute payment rules, and numerous calculations). In some states, SALT that have always been deductible (e.g., the franchise tax in Tennessee or Texas) could now be disallowed as a deduction. Ultimately, the proposal creates excessive complexity, increases the tax administration burden for all parties, expands the disparity between PTEs and C corporations, and essentially increases taxes on many PTEs.

Click [here](#) to see a breakdown of how PTEs and SSTBs may be impacted by the proposed changes to the PTET SALT deduction.

**The PTET SALT deduction helps those entities structured as partnerships or S-corporations. It does not help the small businesses that are sole proprietors.**

**FACT:** Ideally, all business entities, including PTEs (and sole proprietorships) should be allowed to take an “above-the-line” deduction for state and local taxes paid or accrued in carrying on a trade or business, whether paid at the entity level or directly by the partner/owner. Furthermore, such treatment should be consistent for taxpayers regardless of the form in which they choose to operate, whether as a partnership, a corporation, or a sole proprietorship.

Our laws should not discourage the formation of PTEs, as these business structures provide the flexibility and control desired by many owners that is not available within the more formal corporate structure. The majority of America's businesses are structured as PTEs (partnerships, S corporations, limited liability companies, or sole proprietorships). Tax legislation should not disadvantage these entities or require businesses to engage in complex entity changes to obtain favored tax status, as they are the backbone of our economy. Plus, there are many professions that are limited in their choice of entity, whether by state law or professional regulatory bodies.

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