



Testimony in Support of Senate Bill 495
Mr. Daniel Murray
Kansas State Director, National Federation of Independent Business

Senate Assessment & Taxation Committee
March 10, 2022

Madam Chair and members of the committee, I am pleased to submit testimony on behalf of NFIB Kansas in strong support of SB495. NFIB Kansas is the leading small business organization in Kansas representing small and independent businesses. A non-profit, nonpartisan organization founded in 1943, NFIB Kansas represents the consensus views of its almost 4,000 members in Kansas.

Senate Bill 495 establishes the SALT parity act to allow pass-through entities to elect to pay state income tax at the entity level. The state and local tax (SALT) deduction permits taxpayers who itemize when filing federal taxes to deduct certain taxes paid to state and local governments. The 2017 Tax Cuts and Jobs Act capped this deduction at \$10,000 per year. The IRS and Treasury Department gave their support in November for a workaround for pass-through entities.

Owners of pass-through entities report their share of business income when they file their individual income tax returns, which is why they are subject to the \$10,000 cap on state and local income taxes. The workaround allows the state to establish an optional entity level tax in exchange for a credit. These entity-level taxes will allow owners of pass-through businesses to pay additional state taxes at the business level, and in return the owner can claim a credit on his state return for the tax paid by the business on their share of income. Since the SALT deduction cap does not apply to business taxes, this allows these owners to avoid the cap, since the entity-level tax substitutes for their income tax payment, which would have been subject to a capped deduction.

Approximately 75 percent of NFIB members are organized as pass-throughs (S corporations, LLCs, sole proprietorships, or partnerships), not as C corporations. This workaround is applicable for S-corporations, some LLCs and partnerships. Connecticut*, Louisiana, Maryland, New Jersey, Oklahoma, Rhode Island, and Wisconsin have all adopted entity-level taxes which offer credits against the owners' personal tax liability.

Thank you for your consideration of our comments, and we strongly urge you to vote SB495 favorably for the passage.