



CA ELECTIVE PASS-THROUGH ENTITY (PTE) TAX FOR 2022 (05-10-2022)

Background

The Tax Cuts and Jobs Act of 2017 (TCJA) imposed a \$10,000 cap on individual itemized deductions for state & local sales, income, and property taxes (SALT) for tax years 2018 through 2025. In response to the TCJA's SALT tax cap, many states have enacted a pass-through entity (PTE) tax, which allows business owners to elect to have their partnerships or S corporations pay state and local income taxes at the entity level rather than at the individual level.

CA PTE Tax

California's recently enacted "SALT workaround" allows **S corporations and partnerships** to elect to pay a 9.3% tax on taxable income at the entity level to reduce the amount of federal taxable income passed through to each of the owners. Since the entity is not subject to the Tax Cuts and Jobs Act's \$10,000 SALT cap, it can deduct a much higher amount than individuals can on a personal return.

Individuals, estates, and trusts are eligible to receive this credit; however, any unused credit is still limited to the five-year carry forward period. The election to pay this PTE tax is an annual election and it is irrevocable for that year.

2022 CA PTE Election

To make the 2022 tax year election, the election must be made by **June 15, 2022** with the 1st payment of the below, which is **greater**, otherwise the PTE will not be permitted for the 2022 tax year.

- \$1,000 or
- 50% of the prior year PTE Tax paid

The 2nd payment is due on or before the due date of the return without regard to any extensions.