

Other Items of Interest to CalCPA Members

Business Climate

The COVID crisis has exacerbated an already challenging business climate and forced business of all sizes to reevaluate their entire operations. Additionally, there have been a growing number of legislative and regulatory proposals that impact how businesses in California operate. While each new strategy seeks to address a specific public policy issue, they often entail a new requirement on California businesses.

Each time policy leaders consider a new tax, labor policy, or reporting obligation, businesses across the state must adjust accordingly. Often this includes a call to their CPA for assistance in assessing the impact and understanding their options. Unfortunately, the conversations are more frequently focusing on whether a business should minimize their investment into California operations, reduce their footprint, or even leave the state entirely.

For CalCPA members that are rooted in communities across California, this is a troubling trend. Before taking action on a policy that could impact business operations in California, we encourage you to connect with your local CalCPA member for an objective, real-world perspective on how it will impact the business climate in your district.

Pass-Through Entity Tax to Mitigate State & Local Tax Deduction Limits

The Tax Cuts & Jobs Act of 2017 limited the amount of state and local tax (SALT) deductions an individual could deduct to \$10,000. This disproportionately impacted taxpayers in high-tax states like California.

Recent IRS guidance opened the door for states to enact laws to allow individual owners of a pass-through entity (PTE), such as a partnership or S corporation, to shift some of the tax burden from the owners to the PTE itself. Such an approach would effectively allow certain taxpayers to circumvent the current limits on individual SALT deductions. Several states have already passed legislation to implement this framework and more are expected to follow.

This approach is a complicated shift in tax policy that has the potential to be beneficial for the state and taxpayers. CalCPA member tax experts are evaluating this issue, including two recent proposals that have emerged in the Legislature, SB 104, and the Governor's proposed 2021-22 budget. While we do not currently have a position, CalCPA expects to provide input on these proposals as they move through the legislative process.