

**SALT Cap Entity Level Tax
 Analysis of Potential Impacts**

Who reports passthrough income?

- In general, pass through income is highly concentrated.

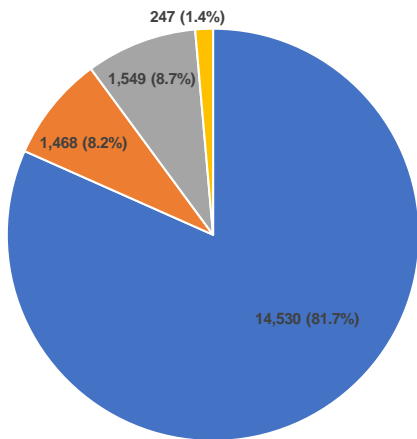
2019: S-Corp and Partnership Income by Income Group			
	Number of Returns	Average	Share of Total Income
Less than Zero	920	-\$77,101	-0.3%
\$1-\$10,000	620	-\$3,282	0.7%
\$10,000 to \$25,000	1,260	\$2,895	1.6%
\$25,000 to \$50,000	2,290	\$5,638	1.3%
\$50,000 to \$75,000	2,360	\$9,621	0.7%
\$75,000 to \$100,000	2,310	\$14,169	1.1%
\$100,000 to \$200,000	5,640	\$25,954	5.3%
\$200,000 to \$500,000	3,700	\$77,305	4.5%
\$500,000 to \$1m	910	\$231,390	6.1%
\$1m+	490	\$781,265	34.5%
Total	20,500	\$49,991	4.5%

Source: Internal Revenue Service, SOI Historic Table 2

From [JFO 2019 Issue Brief](#) on Pass-Through Businesses:

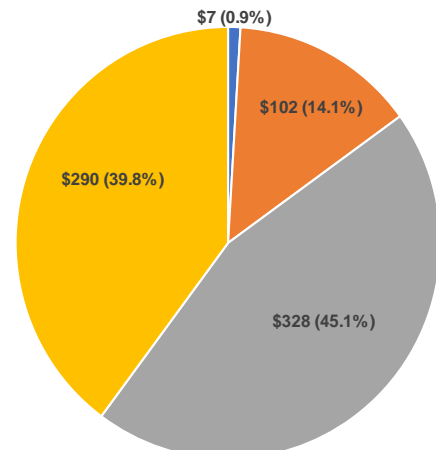
- As in the U.S., most of Vermont’s pass-throughs are small businesses.
- Most S-Corp and Partnership returns report little to no net income.
- However, most of the net business income (taxable profits) earned by pass-throughs in Vermont accrues to a very small number of large (greater than \$500,000 in profits) pass throughs.
 - 82% of S-corporation/partnership returns reported net business income of less than \$50,000. 247 returns with greater than \$500,000 in net income (1.3%) accounted for almost 40% of the total profits.

Figure 8: Number of Vermont Resident S-Corporation/Partnership Returns by Net Business Income Group
 (Tax Year 2017, Vermont Resident Tax Returns Only)



■ 0 to \$50,000 ■ \$50,000 to \$100,000

Figure 9: Total Net Business Income for S-Corporation/Partnership Returns by Net Business Income Group
 (In millions of dollars, Tax Year 2017, Vermont Resident Tax Returns Only)



■ \$100,000-\$500,000 ■ \$500,000 +

Who was impacted by the SALT Cap?

Vermont: Tax Year 2017 State and Local Tax Deductions				
	Number of Returns	Amount Deducted	Average	Share of Total Income Deducted
Less than Zero	0	\$0	\$0	0%
\$1-\$10,000	1,660	\$6,493,000	\$3,911	-2%
\$10,000 to \$25,000	4,210	\$17,525,000	\$4,163	7%
\$25,000 to \$50,000	12,040	\$58,324,000	\$4,844	6%
\$50,000 to \$75,000	15,800	\$101,229,000	\$6,407	3%
\$75,000 to \$100,000	14,140	\$118,954,000	\$8,413	4%
\$100,000 to \$200,000	31,670	\$406,168,000	\$12,825	15%
\$200,000 to \$500,000	9,740	\$270,069,000	\$27,728	5%
\$500,000 to \$1m	1,280	\$87,589,000	\$68,429	3%
\$1m+	530	\$114,925,000	\$216,840	13%
Total	91,070	\$1,181,276,000	\$12,971	6%

Source: Internal Revenue Service, SOI Historic Table 2

Vermont: Tax Year 2019 State and Local Tax Deductions				
	Number of Returns	Amount Deducted	Average	Share of Total Income Deducted
Less than Zero	0	\$0		0.0%
\$1-\$10,000	330	\$1,426,000	\$4,321	0.6%
\$10,000 to \$25,000	760	\$3,385,000	\$4,454	0.3%
\$25,000 to \$50,000	2,260	\$12,210,000	\$5,403	0.4%
\$50,000 to \$75,000	3,750	\$25,165,000	\$6,711	0.8%
\$75,000 to \$100,000	3,450	\$27,772,000	\$8,050	1.0%
\$100,000 to \$200,000	6,800	\$64,653,000	\$9,508	1.0%
\$200,000 to \$500,000	3,980	\$39,403,000	\$9,900	1.1%
\$500,000 to \$1m	890	\$8,879,000	\$9,976	0.8%
\$1m+	470	\$4,676,000	\$9,949	0.2%
Total	22,690	\$187,569,000	\$8,267	2.1%

Source: Internal Revenue Service, SOI Historic Table 2

What is the revenue impact on the state?

JFO has not done in-depth modeling, although scenario analyses with the Department of Taxes indicate that this is very likely to generate revenue for the State. The exact degree is unknown at this time.

How much could taxpayers potentially save?

Preliminary JFO estimates that pass through owners could save between \$10 and \$20 million in Federal taxes per year. This estimate is highly variable upon take up rates.

JFO estimates that the bulk of this benefit (greater than 80%) will accrue to taxpayers with Adjusted Gross Income of greater than \$500,000. This is because these returns are much more likely to have positive net pass through income, and have significant state and local taxes.

Context: Federal Tax Cuts and Jobs Act of 2017

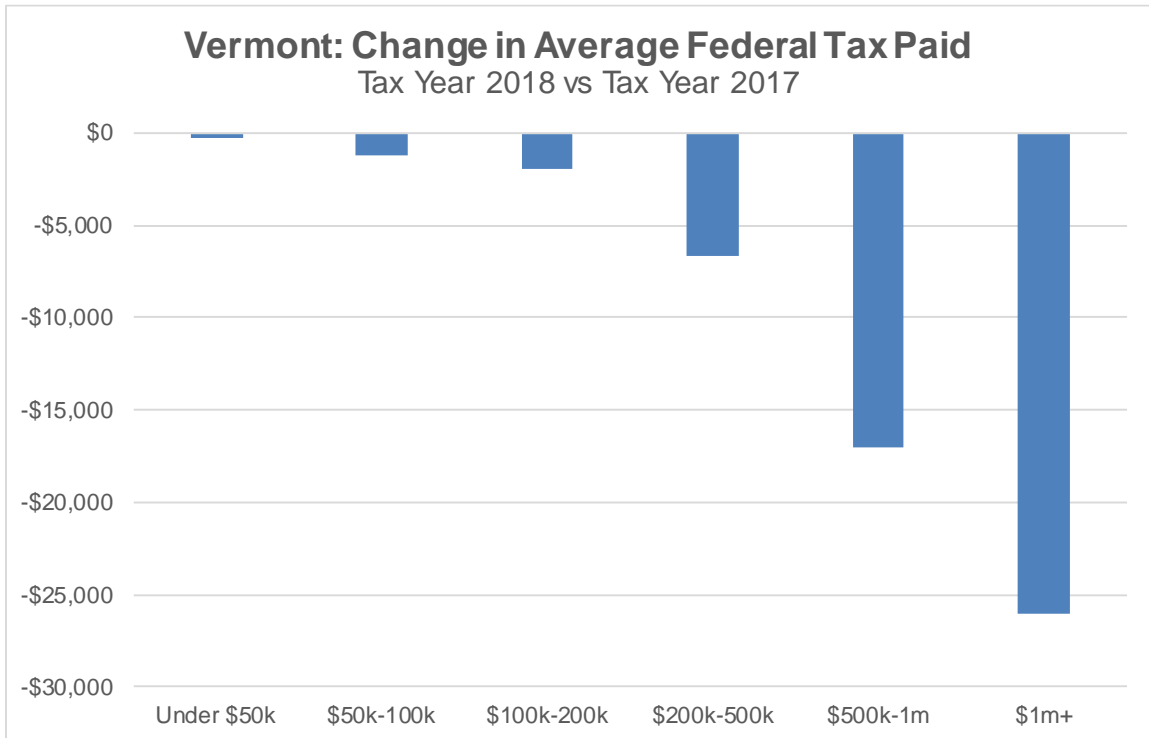
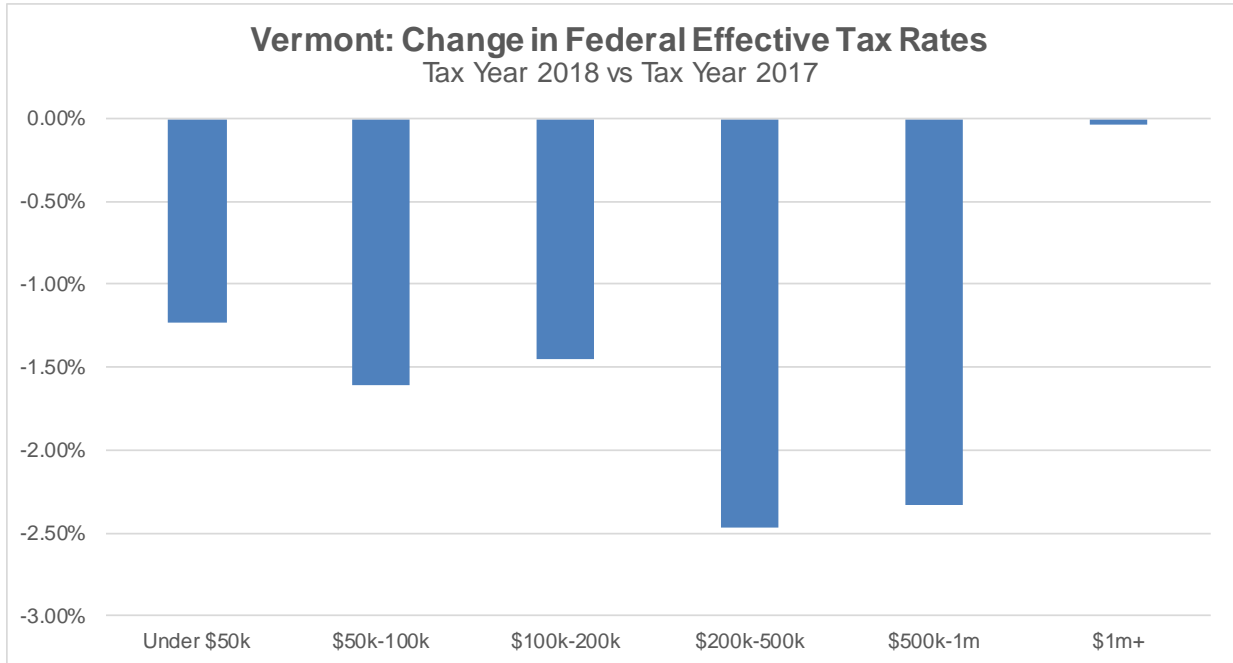
- Overall, while pass through owners were impacted by the SALT cap, they also benefitted from other changes in the Tax Cuts and Jobs Act (TCJA), namely the Section 199 deduction.
- Section 199 deduction passed in TCJA
 - 20% deduction of all pass-through income subject to occupational and income limits
 - Deduction limited for certain professions, but only past the income limits (\$329,800 married, \$164,900 single)
 - Deduction greatly reduces the tax liabilities of taxpayers with AGI above \$100,000
 - JCT analysis below: 92% of tax reductions go to taxpayers with AGI above \$100,000
- The combination of the Section 199 deduction plus the reductions of tax rates and the changes to the Federal AMT in aggregate resulted in tax reductions for this group of taxpayers.

Table 3.—Distribution of Tax Benefit for Pass-Through Deduction Under Section 199A

Income Category [1]	2018		2024	
	Returns (Millions)	\$ Billions	Returns (Millions)	\$ Billions
Less than \$10,000.....	[2]	[3]	[2]	[3]
\$10,000 to \$20,000.....	0.5	-\$0.1	0.6	-\$0.1
\$20,000 to \$30,000.....	0.7	-\$0.2	0.7	-\$0.2
\$30,000 to \$40,000.....	0.8	-\$0.2	0.8	-\$0.3
\$40,000 to \$50,000.....	0.9	-\$0.3	1.0	-\$0.4
\$50,000 to \$75,000.....	2.5	-\$1.0	2.6	-\$1.3
\$75,000 to \$100,000.....	2.5	-\$1.2	2.6	-\$1.5
\$100,000 to \$200,000.....	6.2	-\$6.3	6.5	-\$8.0
\$200,000 to \$500,000.....	3.0	-\$9.4	3.2	-\$11.6
\$500,000 to \$1,000,000.....	0.2	-\$3.6	0.3	-\$5.3
\$1,000,000 and over.....	0.2	-\$17.8	0.2	-\$31.6
Total, All Taxpayers.....	17.4	-\$40.2	18.4	-\$60.3

Source: Joint Committee on Taxation, April 2018

<https://www.jct.gov/CMSPages/GetFile.aspx?guid=5ce9eb00-6770-497c-b637-05caf612a358>



Source: IRS Statistics of Income, Historical Table 2