

Ask Legislators to Help Small Businesses with Their Federal Taxes

The Vermont Legislature has an opportunity to help Vermont small business owners to save on their federal taxes; it would not take any revenue from the state, in fact, the state would gain tax revenue. Yet some legislators are ideologically opposed because they do not want to help businesses.

We are looking for the Vermont legislature to change the law to allow Vermont LLCs, LLPs, and S-corps to deduct their State and Local Taxes (SALT) from their federal taxes via the [IRS blessed SALT workaround](#).

Here are some main points to convey to legislators:

- [20 other states](#) have enacted the SALT cap workaround, and so should Vermont! Vermont is sending \$50 million to Washington that 20 other states aren't. Other states are moving to enact the workaround, putting us at a further competitive disadvantage.
- We are sending \$50 million to the federal government we do not have to - that money could be staying here in Vermont and being put to work to help Vermonters. Vermont is always looking to draw down as many federal dollars as possible so why not now?
- The *federal* government will pick up the cost of this tax cut that the state legislators have within their power to create.
- As we see growing inflation, this provision can help small business owners across the state keep their prices down by covering some of their margins.
- SALT was capped as a punitive measure meant to hurt blue (democratic) states like Vermont, which utilizes it the most because they have high taxes.
- In any other area of government, our strategy is to draw down as much federal money as possible and not send money to the federal government when we don't have to.

Some FAQs:

How does the proposal work?

- [Here is an example of how this might work for a taxpayer](#). The state tax paid by the pass-through can be deducted from the pass-through's income at the federal level because the SALT deduction cap does not apply to businesses, only to individuals. This reduced federal tax is then passed onto the pass-through members, so they pay less federal income tax. The pass-through also passes on the state tax to its individual members. The individual members can then claim a state income tax credit for the tax paid.

Would the state lose money on this?

- The *federal* government will pick up the cost of this tax cut that the state legislators have within their power to create.
- The state will likely make more money on this proposal because of the elective tax liability. A filer would be eligible for credit equal to 90% of the member's pro-rata share of tax paid by pass-through. The state could bring in as much as \$5 million in additional revenue.

How much would this save eligible Vermont filers?

- It's estimated that between 20,000 and 30,000 state filers could elect to use this and bring in a savings of about \$50 million to the state by lessening what is paid in federal taxes.

Should we wait until every filer in the state can access a SALT deduction again?

- Just because this has been repeatedly stalled in Congress doesn't mean we should pass up meaningful tax relief for those who have a path available.
- To wait would be to needlessly continue sending Vermont dollars to Washington just because we want the perfect solution instead of a good one for the time being. If we can save \$50-250 million now, we should.

Congress will likely do this for everyone, so why don't we just wait for that?

- People have been saying this for years, however, it is clear Congress won't get this done, we need to do what we can ourselves.
- Because the SALT cap affects blue states, and because of the partisan nature of Congress, this usually can't make it to the final round of negotiations in most packages.

This sounds like a handout to the rich?

- No, any business owner making as little as \$25,000 can make use of this.
- See this overview from the State Joint Fiscal Office [showing the filers impacted](#).

If you have any questions, feel free to reach out to austin@vermont.org