

PASS-THROUGH ENTITY TAX GUIDE

What is the Pass-Through Entity (PTE) Tax?

With the passing of AB 150 new law, pass-through entities can elect to pay a state tax from their business, which will reduce the state tax on the owner's personal tax return. The best thing is that in doing so, it avoids the state and local tax (SALT) limitation of \$10,000 on the personal return, creating a better tax savings.

Who qualifies?

S-corporations, partnerships, LLCs tax as an S-corp or partnership.

Who does not qualify?

Sole proprietors filing a Schedule C tax form, Single Member LLCs, and C-corporations.

When can the PTE tax benefit the business and the owners?

The credit is available for tax years 2021 through 2025.

PTE election

An annual election is made on an original, timely filed tax return. Once the election is made, it is irrevocable for that tax year and is binding on all PTE partners, shareholders, and members.

What states are participating in the PTE?

| | |
|-------------|----------------|
| Alabama | Michigan |
| Arkansas | Maryland |
| Arizona | Minnesota |
| California | North Carolina |
| Colorado | New Jersey |
| Connecticut | New York |
| Georgia | Oklahoma |
| Idaho | Oregon |
| Illinois | Rhode Island |
| Louisiana | South Carolina |

How to make the election?

For the 2022 - 2025 tax years, the election must be made when the tax return is filed, AND the PTE must make an initial payment by June 15. However, if the entity fails to pay the required amount due by June 15, the entity is prohibited from making an election to pay the pass-through entity elective tax for that year.

How much needs to be paid?

The amount due is the greater of: • 50% of the elective tax paid for the prior year; or • \$1,000.

The first payment is due by June 15 of the taxable year. The remaining amount due must be paid by the entity's original filing date deadline (March 15, 2023 for calendar-year taxpayers). The elective tax is 9.3% of the entity's qualified net income.

How to pay the tax?

The PTE tax payment can be made electronically using WebPay on the Franchise Tax Board's (FTB) website. WebPay is free to ensure the payment is timely credited to the account. Alternatively, entities can use the PTE voucher called form 3893 by printing the voucher and mailing it to the FTB.

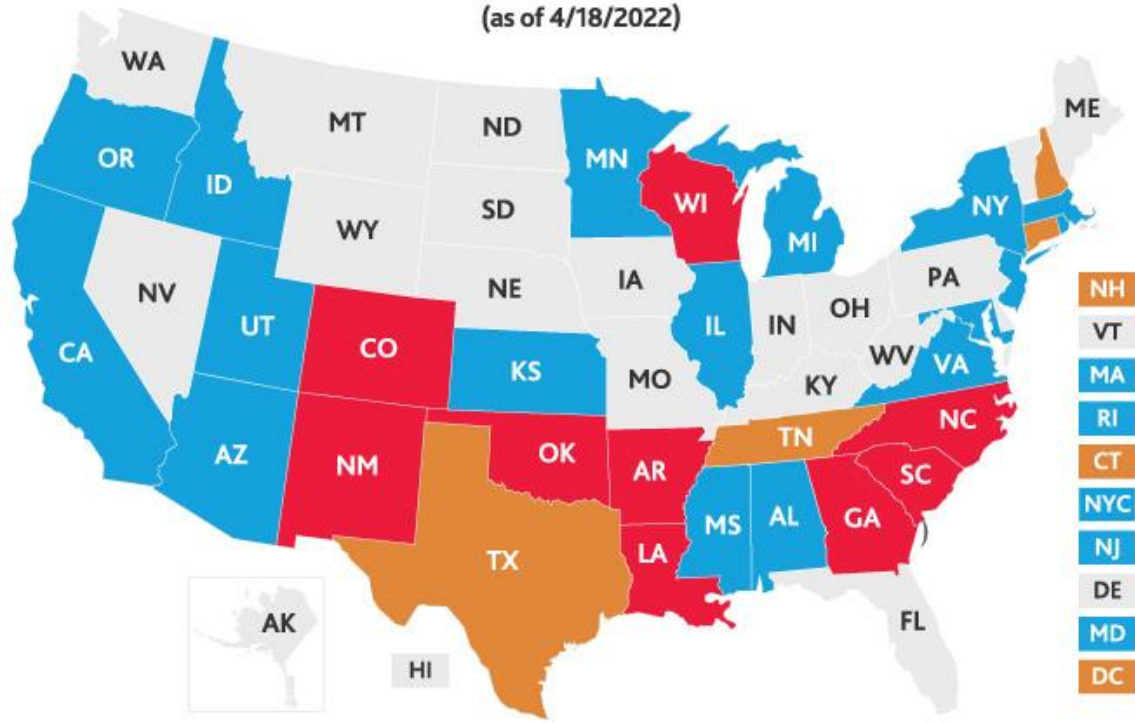
[WebPay link for CA business](#)
[Form 3893 for CA business](#)

Tax credit applied

Qualified taxpayers are eligible to claim the credit for the amount of tax paid from the business applied to the owner's personal return. Unused credits can be carried over for up to 5 years.

*Please consult your tax professional to seek advice for your specific situation.

PASS-THROUGH ENTITY ELECTION FOR INCOME-BASED TAXES
(as of 4/18/2022)



■ Group 1 ■ Group 2 ■ Mandatory ■ No election