

SALT Workarounds Continue As New York Extends The Program for New York City

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With the restriction of state and local tax paid being limited on Form 1040 Schedule A – Itemized Deductions on your personal return, many states have implemented tax programs to help its constituents receive a federal tax reduction by using a pass-through entity tax program to achieve a return of lost benefits. Starting in 2022, New York City has added itself to the list (via NYS legislation) – to provide a benefit for those business owners who live in New York City.

New York State Chapter 59 - Article 24-B puts in place an optional tax for New York City Partnerships and New York City resident S Corporations. This tax will work similarly to the NYS Pass Through Entity Tax (“PTET”) providing a federal deduction on the business level, to reduce the shareholder or partner federal taxable income.

Who qualifies:

Eligible City Partnerships – Generally, any partnership (or LLC treated as such for federal tax purposes) that has elected to participate in the NYS PTET program and has at least one partner or member that is a city resident.

Eligible city resident S Corporation – Generally, any New York S Corporation (or LLC treated as such for federal purposes) that has elected to participate in the NYS PTET program and has **ONLY** city resident individual shareholders.

How to make the election:

The irrevocable election is made annually, on or before March 15, 2023. This election will be done via the NYS online Services portal when it is made available to the public. Keep in mind, the entity must have already made its election for NYS PTET by September 15, 2022.

What is the value of this program:

The tax is based upon 3.876% of the NYC pass-through entities taxable income which translates to a tax savings based upon the federal deduction on this tax. Inasmuch as the top federal tax rate is currently 37%, the value received by this program is roughly 1.4% of taxable income. Still, we believe something is better than nothing!

Other nuances:

Estimates are not required in the first year of election (2022) but will begin in 2023 similarly to NYS PTET.

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As always, we advise that you seek the guidance of a tax professional when making determinations about how your business should plan for taxes. Please feel free to reach out to your SKP representative and discuss how making this election can impact your business and potentially save you money.