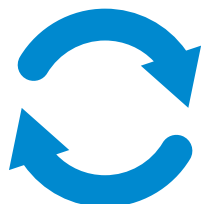




Small Business Tax Reforms



SALT Cap Workaround

To provide relief to small businesses and allow them to remain competitive with surrounding states, Pennsylvania should adopt a SALT cap workaround. Almost every other state with an income tax has enacted a change to apply income taxes at the entity level for small businesses to avoid the federal State and Local Tax (SALT) cap for federal taxes. While recent federal changes did increase the SALT cap from \$10,000 to \$40,000, that increase expires after 2029. Enacting the workaround would have no impact on state taxes, but would provide federal tax relief to small businesses organized as S-Corporations, LLCs, or sole proprietors.



Accelerated Sales Tax

To simplify compliance and ease paperwork burdens on small businesses, the accelerated sales tax pre-payment requirement should be repealed. Current law requires businesses that collect more than \$25,000 in sales tax in the third quarter of the previous year to make monthly pre-payments equal to 50 percent of their expected sales tax collections. Confused? Yes, so are small businesses! Repealing this requirement would allow small businesses to simply remit collected sales tax revenues in accordance with their filing period.



Bonus Depreciation

To promote investment, output and job creation, Pennsylvania should allow full expensing of eligible equipment and property in the year the investment was made, known as bonus depreciation. Section 168(k) of the federal Tax Cuts and Jobs Act allowed for 100 percent expensing, which was gradually phased down to 80 percent in 2023. Pennsylvania does not allow bonus depreciation. The PA Chamber supports legislation that would implement bonus depreciation at the state level, either at 100 percent expensing or a designated percentage of the federal provision.



Net Operating Loss Deductions

To encourage investment and economic growth, Pennsylvania should allow small businesses organized as S-Corporations, LLCs, or sole proprietors to carry forward net operating losses (NOLs). NOL carryforward is a tax provision that lets businesses take losses they incurred during a taxable year and “carry them forward” into future tax years, where they can be deducted from future profits. Pennsylvania is currently on a path to allow Corporations to use NOLs to deduct up to 80 percent from their tax liability in future years. The inability to utilize NOLs serves as a Start-Up Tax on new and emerging businesses.



Vendor Discount

To provide relief for businesses that have been experiencing increased cost pressures, Pennsylvania should restore the vendor discount. Prior to 2016, businesses that timely submitted their sales tax collections were able to keep one percent of the total collected to offset the costs incurred by businesses in collecting and remitting sales tax. This offset, known as the vendor discount, was severely limited to a maximum of \$300 annually.