



TO: The Honorable Members of the PA House Finance Committee

FROM: Allison Coccia, Director, Government Affairs

DATE: June 7, 2022

RE: Support: SB 347 *Like Kind Exchanges*; HB 1709 Optional Entity Level SALT Cap Workaround as amended (A04425)

On behalf of the PA Chamber of Business and Industry, I urge your support of **Senate Bill 347 and House Bill 1709** as amended (A04425), scheduled to be before the House Finance Committee today.

These bills would institute critical measures to restore Pennsylvania's competitiveness and provide much needed relief to the businesses and job creators driving economic growth. The House Finance Committee previously passed Senate Bill 347's companion bill, House Bill 105 with bipartisan support. More importantly, the House passed House Bill 385, which was amended to allow for like-kind exchanges at the state level, unanimously.

#### **SB 347 -Like Kind Exchanges**

A "like kind exchange" is the disposal of an asset and the acquisition of another replacement asset without generating a current tax liability from the sale of the first asset. Under Federal tax law, a "like-kind" exchange under Internal Revenue Code Section 1031 allows for tax-deferral when property is exchanged for similar property.

Pennsylvania is the only state in the country that does not provide for a similar deferral at the state level, putting PA's small businesses at a competitive disadvantage. Senate Bill 347 would align Pennsylvania law to the Federal law by allowing for similar treatment at the state level.

#### **HB 1709 -Optional Entity Level SALT Cap Workaround**

House Bill 1709 would allow Pennsylvania partnerships or s-corps to elect to recognize income from the operation of the business at the entity-level as opposed to the existing pass-through methodology for income tax purposes. If the election is made, the partnership or s-corp owners and shareholders would receive a credit, equal to the amount of income taxes paid by the business entity, against state income tax liabilities.

The Tax Cuts and Jobs Act (TCJA) imposed a \$10,000 limit on the maximum deduction taxpayers may claim for certain state and local taxes through 2025 on individuals but not business entities. House Bill 1709 would shift state tax liabilities for pass-through entities' (PTEs) income from the individual back to the PTE, providing relief to owners and shareholders.

We urge your support for **Senate Bill 347 and HB 1709** as amended (A04425.) Should you have any questions, please contact Allison Coccia, Director of Government Affairs, at [acoccia@pachamber.org](mailto:acoccia@pachamber.org) or (518) 265-7429.