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Michigan State and Local Tax (SALT) Workaround Considerations

In late December 2021 Michigan's Governor signed HB 5376, allowing Flow Through Entities (FTEs) to have Michigan taxes at the entity level. This new provision provides relief from the \$10,000 SALT cap that exists at the federal level when itemizing. Below are some key items related to the provision and are considerations when deciding whether to make the election:

*Partnerships and S-Corporations (or LLCs taxed as either), referred to as FTEs, will be able to elect and pay 4.25% tax to Michigan.

*In return, the FTE will deduct this state income tax on its federal tax return, reducing the amount of federal income tax paid by the FTE owners.

* FTE owners will be able to claim a credit for the 4.25% tax paid to Michigan by the FTE on their personal Michigan income tax returns.

Analyzing the tax savings:

Each taxpayer's unique situation should be analyzed to be sure that a net benefit exists. Below are examples of some scenarios to weigh when trying to determine if the benefits outweigh the cost of electing into the Flow- Through Entity tax:

	Scenario #1	Scenario #2	Scenario #3
Estimated Flow-Through Income	\$ 50,000	\$ 150,000	\$ 500,000
State Tax Rate	4.25%	4.25%	4.25%
Estimated Flow-Through Income Tax	\$ 2,125	\$ 6,375	\$ 21,250
Estimated Owner Federal Tax Rate	15%	22%	37%
Estimated Tax Savings	\$ 319	\$ 1,403	\$ 7,863
Blystone & Bailey's estimate for the annual compliance work for the election and required MI tax return/reconciliation:	\$750-1,500	\$750-1,500	\$750-1,500
(fees are estimated and subject to change)			
Net savings (cost)	\$ (431) - \$ (1,181)	\$ 653 - \$ (97)	\$ 7,113 - \$ 6,363

As results clearly depend on the FTE's income and the owner's tax rate(s), the savings can fluctuate and should be considered when determining whether to make the election.

Other considerations:

* The election is binding for three years once made.

* Quarterly estimated tax payments will also be required to be paid by the FTE.

* Limited information is available from the State of Michigan on all filing requirements

B&B has been reviewing our clients' situations to determine if we think making the elections is beneficial. If you have any questions about making this election, please reach out to your Blystone & Bailey advisor at (989) 772-4673.