The One Big Beautiful Bill: Is PTET Alive? Congress' Struggle with the Pass-Through Entity Tax: Final Edition

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On Tuesday, July 1, the United States Senate narrowly approved President Donald Trump's One Big Beautiful Bill Act (OBBBA),[1] with Vice President J.D. Vance casting the deciding vote to break the 50-50 tie. On July 3, the bill narrowly passed the U.S. House of Representatives by a 218-214 vote. On July 4, President Trump's signature was added to the bill, signing it into law.[2]

Among the many tax reforms present in the OBBBA, one pertains to the creative use of pass-through entity tax (PTET) structures to avoid the $10,000 ($5,000 for married taxpayers filing separately) state and local tax (SALT) cap that was instituted by the Tax Cuts and Jobs Act (TCJA) of 2017. The Internal Revenue Service approved the PTET strategy in a 2020 Notice confirming that pass-through entities are not subject to the SALT cap imposed by the then TCJA.[3]

Since then, PTET legislation has been enacted in 36 states – it is the rage. For many businesses, this work-around is huge!

On its face, a PTET is a tax levied on an entity classified as a partnership or an S corporation under which passthrough entities could elect to pay an entity-level tax in return for a credit or deduction against the state tax imposed *on the owner* of the pass-through entity. In short, a PTET provides taxpayers an opportunity to maneuver around the $10,000 annual SALT cap for individuals. The $10,000 cap provision under the TCJA was set to sunset this year but has been extended as part of the OBBBA, though the tax was duked out between the Senate and House of Representatives. Taxpayers are in luck because the Senate (and its version) won this round! This article highlights the new law and details that the PTET is alive and well, while contrasting it with the initial House version that passed in May and the Senate's version that the President signed.

The Senate version of the OBBBA maintained much of what the TCJA contained in it. Temporarily, the bill increases the limit on SALT

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cap to $40,000 annually ($20,000 for married couples filing separately) from the current $10,000 annual cap.[4] In addition, the SALT cap will then increase to $40,400 in 2026 for inflation and will proceed at an increase of 1% annually to adjust for same.[5] Then, starting in 2030, the SALT cap will revert back to the $10,000 annual deduction amount.

Additionally, during the same period, the SALT cap limitation is phased down for taxpayers with a modified adjusted gross income *over* $500,000.[6] Under this phase down, the $40,000 SALT deduction cap is reduced by 30% of the excess of the modified gross income over the threshold amount, with the reduced rate not to fall below $10,000.[7] These changes are to take place for taxable years beginning after December 31, 2024.

Yes, PTET is alive and well! To taxpayers' delight, the Senate version (now signed into law) *did not alter* the PTET in any way. In other words, the stringent changes the House approved in its May vote did not become part of the law now bearing the President's signature. The House version would have eliminated some, but not all, PTET regimes to avoid the SALT cap.[8] Under the House version's framework, specified trade or businesses (e.g., healthcare, law, accounting) would have been denied use of a PTET, along with pass-through entities that were not carrying on a qualified trade or business and did not meet the 75% gross receipts income (for all affiliated businesses) that related to a qualified trade or business.[9] In sum, the initial House bill was gutting PTET all over the country.

Fortunately for taxpayers, the bill now signed into law by the President contains none of the restrictions the House version placed on the PTET. After a whirlwind, taxpayers can rest assured that the new law maintains the PTET and it is alive and well, and as a bonus, the SALT cap deduction is going up!

Next Steps

State and local taxes are a huge cost to businesses, large or small. Active and considered planning goes a long way toward tax mitigation. PTET strategies are just one approach. To explore what else might be applicable, contact a member of the Frost Brown

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Todd SALT Team or reach out to:

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We're here to help.

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[1] The One Big Beautiful Bill, H.R. 1, 119th Cong. (2025) (as passed by the Senate on July 1, 2025, and subsequently signed into law by President Donald J. Trump on July 4, 2025) (hereinafter the Final version).

[2] Id.

[3] *See* Notice 2020-75, Internal Revenue Service.

[4] *See* Final version, *supra* note 1, at § 70120(b)(7)(A)(i).

[5] Id. at (b).

[6] Id. (providing "[I]n the case of any taxable year beginning before January 1, 2030, the applicable limitation amount shall be reduced by 30 percent of the excess (if any) of the taxpayer's modified adjusted gross income over the threshold amount (half of the threshold amount in the case of a married individual filing a separate return.").

[7] The Senate version defines "modified adjusted gross income" as meaning "adjusted gross income increased by any amount excluded from gross income under section 911, 931, or 933." Senate version at § 70120(b).

[8] *See* One Big Beautiful Bill Act, H.R. 1 (as passed by the House May 22, 2025) at § 6659.

[9] Id. at § 6659.

More OBBBA Coverage

The One Big Beautiful Bill Act stands to fundamentally reshape the fiscal landscape across key sectors, introducing both immediate

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compliance challenges and long-term planning imperatives for businesses. This collection of articles sheds light on the OBBBA's key components to help you better understand and prepare for the changes ahead while taking advantage of the new tools (and tradeoffs) offered by the OBBBA.

View Collection

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