

Kansas Pass-through Entity State Tax Deduction

For 2022, there is a new opportunity to get a deduction for state taxes paid to many states. This means you can pay tax directly to the state directly from your business entity this year. Here's some basic guidance on how to do so.

As you know, the business results for a pass-through entity are passed through to the owners on a K-1 and federal and state taxes are paid from there. However, this year, many states have implemented a mechanism by which state taxes can be paid directly at the business level. This provides a credit to the owners they can apply to their state taxes.

The main benefit of this is that it **provides a deduction for state taxes that you would not get at the individual level**. Once a business has enough pass-through income to make it worth a bit of administration time, paying the state tax from the business saves you some tax you would not otherwise save if these state taxes on the pass-through income were passed through and paid personally by the owners. Your business is then allowed to deduct the state taxes paid against its federal taxable income.

Since many businesses are cash-basis entities, it is likely advisable to pay this tax before the end of the year. Most pass-through entities have a calendar year, so this means making payment by December 31, 2022. This communication is meant to provide you with a way to estimate the amount of this payment.

Here is the calculation we recommend you use to determine the appropriate amount to pay:

Expected Taxable Income x State Tax Rate = Payment Amount

If your business is a Kansas business, the rate of tax to use is 5.7%. To determine your expected taxable income, you can either use your actual expected results, or estimate your results for 2022 based on the last two years. To help in this regard, we have included your prior year two-year tax summary. You may choose to use this to estimate your expected state taxable income if 2022 was similar to either of these prior years.

After you have determined if a payment should be made and the appropriate payment amount, you can use the provided K-120ES fourth quarter voucher to remit payment. Be sure to complete the fields listed on the voucher using your business information, copy the voucher and your check, and provide this to us so that we know to make the appropriate election and reporting for your business to be taxed on the entity level for this income.

Please consult your tax advisor for how these rules may impact you specifically. Your individual circumstances may require further analysis or consideration of how these rules interact with other elements of your overall tax situation. If you have any questions, please do not hesitate to contact us.