



A CLIENT GUIDE FOR CALIFORNIA BUSINESS OWNERS

# The Pass-Through Entity Tax (PTET)

How California's elective tax turns money you already owe the state into a federal deduction — and puts real dollars back in your pocket.

**9.3%**

California elective  
tax rate

**\$0**

impact of the federal  
SALT cap on the deduction

**JUN 15**

annual prepayment  
deadline

**PREPARED BY**

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**ACT BEFORE**

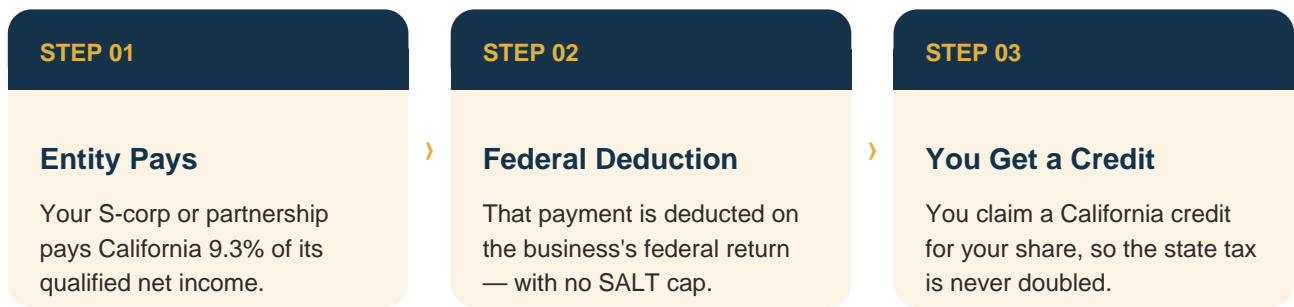
June 15 — annual prepayment

## 01 WHAT PTET IS — AND WHY IT EXISTS

In 2017, federal tax law capped the state and local taxes (SALT) an individual could deduct on their federal return at **\$10,000**. For California business owners — who routinely pay far more than that in state income tax — this meant losing a valuable federal deduction on income earned through their business.

California's **Pass-Through Entity Elective Tax (PTET)** is the state's answer to that problem. Rather than paying California tax on your business income personally — where the SALT cap limits what you can deduct — **your business entity pays the California tax directly** at a flat **9.3%** rate. Since the business makes the payment, it counts as a deductible business expense on your federal return, and the \$10,000 cap no longer applies to it.

To keep you from being taxed twice, California then gives you a **dollar-for-dollar tax credit** for your share of what the entity paid. Your California tax ends up the same as it always was. What changes is the federal side: a large part of that tax is now deductible, which lowers your federal bill.



### WHO QUALIFIES

California **S-corporations and partnerships** (including most multi-member LLCs taxed as partnerships) whose owners are individuals, trusts, estates, or certain entities. Sole proprietors and single-member LLCs reported on a Schedule C generally do not qualify. Not sure where you fall? We confirm your eligibility as part of onboarding.

## 02 HOW MUCH IT SAVES YOU

Your savings come down to one thing: your **federal marginal tax rate** applied to the California tax your entity pays. The more you earn and the more California tax you owe, the more this is worth to you. Here is how it plays out for one of our clients.

### SCENARIO · Bay Area S-Corporation

\$500,000 qualified net income · 37% federal bracket

**Meet Dr. Chen.** She owns a thriving Pleasanton medical practice structured as an S-corporation. In 2025 the practice has **\$500,000** of qualified net income, and she sits in the top **37%** federal bracket. Here is the difference PTET makes:

WITHOUT PTET	
CA income tax owed	\$46,500
Federal SALT deduction allowed \$10,000 (capped)	
Federal tax saved from deduction	\$3,700
<b>Net federal benefit</b>	<b>\$3,700</b>

WITH PTET	
CA tax paid by entity (9.3%)	\$46,500
Federal business deduction	\$46,500 (full)
Federal tax saved (37%)	\$17,205
<b>Net federal benefit</b>	<b>\$17,205</b>

Dr. Chen's additional federal tax savings with PTET:

# \$13,505

Every year — for paying the exact same California tax she already owed.

## 03 HOW TO SIGN UP

Electing PTET is simple, but the timing matters and the election has to be renewed each year. Everything hinges on one date: the **June 15 prepayment**. Here is how it works, and what we take care of for you along the way.

- 1 Tell us you're interested**  
Let us know you'd like to elect PTET this year, or just ask us to take a look. We'll confirm your entity qualifies before anything else.
- 2 We figure out your prepayment**  
By June 15, your entity has to prepay the greater of **\$1,000** or **50% of last year's PTET**. We run that number and send you the FTB Web Pay steps or a voucher.
- 3 You make the June 15 payment**  
This is the payment that secures the election for the year. We check that it posts correctly with the Franchise Tax Board.
- 4 We handle the election at filing**  
On your business return, we make the election, pay whatever balance is left, and carry the credit through to your personal return so you actually get the federal savings.

### ONE IMPORTANT NOTE ON TIMING

Because June 15 falls well before your return is ever filed, this is a decision we need to make early. The savings are real, but they're gone for the year if that date slips by. If there's any chance PTET fits your situation, let's talk now rather than at tax time.

## Let's see if it makes sense for you.

Reach out and we'll confirm your eligibility and run your numbers — well before June 15.

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## Important Disclosures

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This guide is provided by Milestone Certified Public Accountants, Inc. for general educational purposes and reflects California's Pass-Through Entity Elective Tax rules as of 2025 under AB 150 and SB 132. The elective tax rate is 9.3% of qualified net income. A prepayment is due each June 15. For tax years beginning on or after January 1, 2026, a missed or short June 15 prepayment no longer voids the election but reduces each owner's credit by 12.5% of the underpaid amount.

The scenario shown is a simplified illustration; actual savings depend on your entity type, ownership, income, federal bracket, the federal SALT cap in effect, and other facts. The federal SALT cap was temporarily increased to \$40,000 through 2029 for many taxpayers (with a phase-down above \$500,000 of income), which can reduce — but often does not eliminate — the PTET benefit for higher earners. Figures in the example are rounded.

This is not tax, legal, or investment advice and does not create a client relationship. Please consult Milestone before acting. We are happy to prepare a personalized analysis for your specific situation.