

# California Pass Through Entity Tax Estimate Due June 17

May 30, 2024



For tax years beginning on or after January 1, 2021 and before January 1, 2026, California Pass-Through Entities (PTEs) have the option to pay an annual 9.3% entity-level state tax on qualified net income. This election offers significant tax benefits to consenting qualified partners and shareholders who receive a state credit for their share of the Pass-Through Entity Tax (PTET). This tax is also deductible for federal tax purposes, effectively lowering the overall personal income tax burden. Qualified partners and shareholders include individuals, fiduciaries, estates, and trusts subject to California personal income tax, as well as disregarded single-member limited liability companies owned by an individual, fiduciary, estate, or trust subject to California personal income tax.

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## PTET Tax California Payment Deadlines

For tax years 2022 through 2025, electing California PTEs must adhere to a two-payment schedule:

1. First Payment: The greater of 50% of the prior year's PTET or \$1,000, due

by June 15th of the taxable year for both calendar and fiscal year PTEs.

2. Second Payment: The remaining balance of the PTET, due by the PTE's filing deadline without extensions, which is March 15th for calendar year taxpayers.

Note: Since this year June 15th is a Saturday, **PTEs will have until Monday, June 17th to make the first requisite payment.**

A PTE that did not make a PTET election for the immediately prior tax year is only required to pay \$1,000.

## **Compliance and Eligibility**

Failure to make the June payment or underpaying the required amount will render a PTE ineligible to make the PTET election for that taxable year. This rule applies strictly with no exceptions. PTEs on extension are advised to overestimate their PTET liability when calculating the first estimated payment to avoid mistakenly under-remitting.

Any PTEs that underpaid the tax due to failure to qualify or ultimately choosing not to elect into the tax regime enable can choose to apply the payment to another PTE liability, such as the LCC gross receipts fee or 1.5% S corporate income tax, with any remaining amounts entitled to be refunded.

PTEs formed after June 17, who are filing a short-year tax return, do not need to make any estimated payment.

## **Relief on the Horizon with California Form 3893**

California's Senate Revenue and Taxation Committee has introduced legislation that would allow PTEs to qualify for the PTET election even if they did not satisfy the June prepayment requirement. However, under the proposal, a PTE would be subject to a five percent penalty of the PTET plus interest. If enacted, the rule change would be retroactive to tax years beginning on or after January 1, 2024.

Although the proposal is welcome news, it is unknown if or when it would be passed by the state's legislature. Consequently, PTEs considering electing into the California PTET are encouraged to make the estimate this year and not rely on the prospective relief.

The June payment can be mailed in with Form 3893, *Pass-Through Entity Elective Tax Payment Voucher*, or electronically paid via the Franchise Tax Board's Web Pay system. For more information on the California PTET and the estimated payment requirement, please contact [Alan Goldenberg](#), Principal and Leader of Anchin's State and Local Taxation and Tax Controversy groups, or your Anchin Relationship Partner.

[Contact Our Team](#)