



## Senate Bill 858

### *Income Tax – Subtraction Modification – Nonpassive Income of a Pass-Through Entity*

MACo Position: **OPPOSE**

To: Budget and Taxation Committee

Date: February 26, 2014

From: Andrea Mansfield

The Maryland Association of Counties (MACo) **OPPOSES** Senate Bill 858. This bill would establish a subtraction modification for the first \$50,000 of nonpassive income that is distributed to a member of a pass-through entity (PTE). A PTE refers to an S corporation, a partnership, a limited liability company, or a business trust or statutory trust that is not taxed as a corporation.

To be eligible for the subtraction modification, the bill establishes criteria that must be met. These criteria ensure the business owner or member participates in the day-to-day operations of the trade or business; that the PTE employs at least one person who is not a member of the PTE; and at least 1200 aggregate hours of work are performed in the state in the tax year by employees who are not members of the PTE.

MACo is concerned with the fiscal effects of this legislation. According to the fiscal note, local income tax revenues would decline by \$70 million annually beginning in Fiscal 2015. This is a substantial revenue loss to be shared by the counties, and when combined with other potential revenue challenges, it presents extreme budget difficulties.

Counties have faced economy-driven fiscal challenges in recent years, with county revenue woes expected to continue as property assessments remain in decline for most jurisdictions. Counties are also feeling pressure from federal budget uncertainties and potential changes in the treatment of out-of-state income for county income tax purposes. Legislation that reduces county revenues by this magnitude would make it substantially more difficult for counties to manage their budgets to provide needed services.

For this reason, MACo urges the Committee to give SB 858 an **UNFAVORABLE** report.