



## **Senate Bill 841 and House Bill 1250**

### *Interest Tax – Pass-Through Entities - Exemption*

MACo Position: **SUPPORT**  
**WITH AMENDMENTS**

Date: March 2, 2016

To: Senate Budget and Taxation Committee  
House Ways and Means Committee

From: Andrea Mansfield

The Maryland Association of Counties (MACo) **SUPPORTS** SB 841 and HB 1250 **WITH AMENDMENTS**. This bill provides for a subtraction modification of up to the first \$20,000 of nonpassive income that is attributable to a pass-through entity. A pass-through entity is defined as an S Corporation, Partnership, Limited Liability Company or business trust that is not taxed as a corporation, or a sole proprietorship. To be eligible, the pass-through entity and taxpayer must meet several conditions and an income limitation.

SB 841 and HB 1250 have been introduced to enact one of the many recommendations of the Maryland Economic Development and Business Climate Commission. This Commission met over the past year examining Maryland's tax structure and developed several recommendations to create a more friendly business climate.

MACo has supported legislation in the past to provide broad authority to enact tax incentives for economic development and tax relief purposes and views itself as a partner in these initiatives. However, MACo is concerned with the fiscal effect of this legislation as it reduces county income taxes without any local action or input. Counties believe that incentives and reductions in local tax rates or bases should be a local decision, and would urge the Committee to resist proposals that automatically effect such changes across each county.

Data provided by the Maryland Economic Development and Business Climate Commission indicates that local income tax revenues would decline by \$50 million annually. This revenue effect, combined with that of other bills that have been introduced this session to reduce or adjust the income taxes paid by residents of Maryland, is simply not affordable and could present substantial budget difficulties.

To minimize the local effect, MACo suggests amending the bill to instead be a credit against the state income tax. Consideration could then be given to exploring whether a complementary local option income tax credit is feasible. This approach, if considered for this bill and other similar legislation, would preserve local autonomy to determine the best way to provide these incentives, rather than mandate reductions in local revenue sources.

Accordingly, MACo urges the Committees to vote SB 841 and HB 1250 **FAVORABLE WITH AMENDMENTS** to provide a credit against the state income tax for pass-through entities and explore the feasibility of a local option income tax credit.