



MARYLAND STATE & D.C. AFL-CIO

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HB 507 – Income Tax – Pass-through Entity – Additional Tax
House Ways and Means Committee
February 12, 2020

SUPPORT

Donna S. Edwards
President
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Madam Chair and members of the Committee, thank you for the opportunity to provide testimony in support of HB 507 – Income Tax – Pass-through Entity – Additional Tax. My name is Donna S. Edwards, and I am the President of the Maryland State and DC AFL-CIO. On behalf of the 340,000 union members in the state of Maryland, I offer the following comments.

Under our current tax law, large companies avoid taxes by being a pass-through entity (PTE), allowing profits to flow to members without being taxed. For most small businesses, like sole proprietorships, this makes sense because the owner is the primary worker of the business, directly benefiting from their own labor, and paying taxes on the profits, directly, as the primary member of the company. For larger businesses, with profits above \$1 million per year, this practice is nothing more than moving money around in an effort to avoid paying taxes on the profits.

HB 507 applies a 4% tax directly on the profits – in excess of \$1 million per year – of the PTE distributive share, in order to recoup some of this lost revenue through existing PTE tax avoidance schemes. Not only is this the right thing to do – ensuring large businesses do not benefit in ways that small businesses cannot – but it would be incredibly beneficial to the State of Maryland, re-capturing lost revenues to the tune of \$350 million per year.

Closing this loophole demonstrates to the taxpaying workers of Maryland that their labor is valued and that we will not allow large corporations to use tax avoidance schemes to pay less than they do for the services that we all enjoy.

We urge a favorable report on HB 507.