

January 28, 2021

Testimony on House Bill 357
Income Tax - Pass-Through Entity - Additional Tax
House Way and Means Committee

Position: Favorable

Maryland Nonprofits is a statewide association of more than 1100 nonprofit organizations and institutions. We strongly urge you to support House Bill 357.

House Bill 357 would strengthen our ability to invest in things like education, health care, and our workforce by levying a 4 percent tax on the largest LLCs, partnerships, and S-corporations. This tax is tailored to protect true small businesses by exempting all sole proprietorships, regardless of size, and allowed every company to exempt its first \$1 million in profits. The best available data suggests that the largest 2 percent of applicable companies would pay the majority of taxes under House Bill 357.

Unlike corporations, pass-through companies such as LLCs are not required to pay corporate income taxes on their profits. Instead, their income simply "passes through" to shareholders, which makes this form of legal organization an attractive way for large businesses to reduce their tax responsibilities. Contrary to widespread misconceptions, the majority of assets, sales, and profits are attributable to unambiguously large pass-through companies. Among LLCs, partnerships, and sole proprietorships, less than 2 percent of companies have \$10 million or more in gross receipts, but these companies account for 72 percent of sales and nearly two-thirds of profits. Aside from a small number of exceptionally profitable smaller companies, House Bill 357 would affect only businesses in this stratum.

This is an especially opportune time to roll back special treatment of pass-through companies, as the 2017 federal tax overhaul—the Trump administration's signature legislative achievement—handed a massive tax break to individuals who receive pass-through income—on top of the special treatment this income already received. Because pass-through income goes only to individuals who own shares of pass-through companies, these tax breaks overwhelmingly benefited the small share of households with significant built-up assets.

To provide truly adequate resources for state government and the programs it needs to support across Maryland, and to raise those resources in a more equitable manner, we urge you to give House Bill 357 a favorable report.

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