

# HOUSE BILL 1384

Q3

4lr3028

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By: **Delegate Bates**

Introduced and read first time: February 12, 2014

Assigned to: Rules and Executive Nominations

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## A BILL ENTITLED

1 AN ACT concerning

2 **Income Tax Credit – Pass-Through Entities**

3 FOR the purpose of allowing an individual a credit against the State income tax equal  
4 to the amount by which the tax, when applying a certain effective tax rate, on  
5 the individual's distributive share of pass-through entity income exceeds the  
6 tax on the individual's distributive share of pass-through entity income when  
7 applying a tax rate of a certain percentage; providing that an individual may  
8 not claim the credit if the individual's effective tax rate is less than a certain  
9 percentage; defining certain terms; providing for the application of this Act; and  
10 generally relating to an income tax credit for income from certain pass-through  
11 entities.

12 BY adding to

13 Article – Tax – General

14 Section 10-736

15 Annotated Code of Maryland

16 (2010 Replacement Volume and 2013 Supplement)

17 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
18 MARYLAND, That the Laws of Maryland read as follows:

19 **Article – Tax – General**

20 **10-736.**

21 **(A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE**  
22 **MEANINGS INDICATED.**

23 **(2) “EFFECTIVE TAX RATE” MEANS A FRACTION:**

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EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1                   **(I) THE NUMERATOR OF WHICH IS THE STATE INCOME TAX**  
2 **LIABILITY OF THE INDIVIDUAL BEFORE THE APPLICATION OF INCOME TAX**  
3 **CREDITS; AND**

4                   **(II) THE DENOMINATOR OF WHICH IS THE MARYLAND**  
5 **TAXABLE INCOME OF THE INDIVIDUAL.**

6                   **(3) “PASS-THROUGH ENTITY” MEANS:**

7                   **(I) AN S CORPORATION;**

8                   **(II) A PARTNERSHIP;**

9                   **(III) A LIMITED LIABILITY COMPANY THAT IS NOT TAXED AS A**  
10 **CORPORATION UNDER THIS TITLE; OR**

11                   **(IV) A BUSINESS TRUST OR STATUTORY TRUST THAT IS NOT**  
12 **TAXED AS A CORPORATION UNDER THIS TITLE.**

13                   **(B) (1) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS**  
14 **SUBSECTION, AN INDIVIDUAL MAY CLAIM A CREDIT AGAINST THE STATE**  
15 **INCOME TAX EQUAL TO THE AMOUNT BY WHICH THE TAX ON THE INDIVIDUAL’S**  
16 **DISTRIBUTIVE SHARE OF PASS-THROUGH ENTITY INCOME WHEN APPLYING THE**  
17 **EFFECTIVE TAX RATE EXCEEDS THE TAX ON THE INDIVIDUAL’S DISTRIBUTIVE**  
18 **SHARE OF PASS-THROUGH ENTITY INCOME WHEN APPLYING A RATE OF 2.875%.**

19                   **(2) AN INDIVIDUAL MAY NOT CLAIM THE CREDIT ALLOWED**  
20 **UNDER THIS SECTION IF THE INDIVIDUAL’S EFFECTIVE TAX RATE IS LESS THAN**  
21 **2.875%.**

22                   **(C) THE UNUSED AMOUNT OF THE CREDIT MAY NOT BE CARRIED OVER**  
23 **TO ANY OTHER TAXABLE YEAR.**

24                   SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
25 July 1, 2014, and shall be applicable to all taxable years beginning after December 31,  
26 2013.