

MedChi

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TO: The Honorable Guy Guzzone, Chair
Members, Senate Budget and Taxation Committee

FROM: J. Steven Wise
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DATE: February 12, 2020

RE: **SUPPORT** – Senate Bill 523 – *Income Tax – Pass-Through Entities – Imposition of Tax*

The Maryland State Medical Society (MedChi), the largest physician organization in Maryland, **supports** Senate Bill 523.

The federal “Tax Cuts and Jobs Act of 2017” (TCJA) imposed a new \$10,000 limitation on the deductible amount of state and local taxes paid by an individual. Many physicians are small business owners, and this change results in individuals who are small business owners and paying more than \$10,000 per year in combination of state income tax, property tax and other related taxes having a federal income tax payment higher than in prior years when these taxes were fully deductible on the federal return.

The TCJA did not change the fact that state and local taxes paid by a business entity (e.g., partnerships, limited liability companies and S-corporations) are still fully deductible for the entity’s federal taxable income calculation. By clarifying that Section 10-102.1 of the Tax General Article of the Maryland Annotated Code is a tax on the pass-through entity, individuals who are small business owners, can take the position that the tax is not subject to the new \$10,000 limitation, which only applies to individuals, therefore essentially restoring the federal tax deduction.

For these reasons, MedChi supports Senate Bill 523.

For more information call:

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