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Transportation and the Environment
Subcommittee
Joint Committee on Ending
Homelessness
Joint Committee on Pensions

THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

HB 129 – TAXES – ELECTION FOR PASS-THROUGH ENTITIES

WAYS AND MEANS COMMITTEE

FEBRUARY 12, 2020

DELEGATE CAROL KRIMM

WHAT IS THE PURPOSE OF THIS BILL?

Many small businesses in Maryland are organized as pass-through entities that include sole proprietorships, partnerships and S-corporations. These businesses are not subject to the corporate income tax. Instead owners are taxed under the individual income tax. 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 (income + property) (SALT) paid by an individual.

The SALT cap impacts all individuals, including small businesses that are organized as pass-through entities since these businesses pay the income tax related to their business income on the owner's individual income tax return. HB 129 would have the effect of restoring a federal income tax deduction to individuals and pass-through entities when filing their federal income return.

The bill would confirm that the state and local tax (SALT) currently remitted to Maryland by pass-through entities is a tax on the **entity**, thereby allowing the owners to take the position that the tax is a business entity tax not subject to the \$10,000 SALT limitation enacted in TCJA. This makes the state income tax paid by the entity deductible against business income for federal taxable income purposes.

The bill is revenue neutral for the state. The bill is a minor code change that will provide federal tax relief for our small businesses. Six states have passed similar legislation including New Jersey on January 13, 2020.