



# POSITION STATEMENT

## TESTIMONY PRESENTED TO THE SENATE BUDGET & TAXATION COMMITTEE

### SENATE BILL 590— INCOME TAX- PASS-THROUGH ENTITY- MAXIMUM RATE

February 26, 2014

**DONALD C. FRY**  
**PRESIDENT & CEO, GREATER BALTIMORE COMMITTEE**

#### **Position: Support**

The Greater Baltimore Committee (GBC) is an independent non-partisan regional business advocacy organization of more than 500 businesses—large, medium and small—educational institutions, nonprofit organizations and foundations located in Anne Arundel, Baltimore, Carroll, Harford and Howard counties as well as Baltimore City. The GBC is a 59-year-old, private-sector membership organization with a rich legacy of working with government to find solutions to problems that negatively affect our competitiveness and viability. It is an organization that prides itself on advocating for changes in public policies that strengthen the business climate while improving the quality of life.

The Greater Baltimore Committee **supports** Senate Bill 590 - Income Tax - Pass-Through Entity - Maximum Rate.

Senate Bill 590 would set maximum income tax rates for members of pass-through entities. For the first \$25,000 of income distributed to members of a pass-through entity, the state maximum rate would be 2.875 percent and the county maximum rate may not exceed 1.6 percent.

The Tax Foundation's 2013 State Business Tax Climate Index ranks Maryland at No. 41 on its list which places it in the top 10 worst states for business taxes. There are several factors that have earned Maryland this rank, but one often overlooked in policymaking is that individual income tax rates meaningfully impact businesses that are partnerships, S corporations, limited liability companies and sole proprietorships. Business executives and economic development experts in Maryland say that current state taxes on “pass through” earnings are a significant impediment to business development.

Currently, pass-through entities are taxed no differently than individuals with high earnings; however, pass-through entities are a unique segment of the private sector that requires well thought out tax policies to ensure they are able to thrive in our competitive markets.

The Greater Baltimore Committee published *Gaining the Competitive Edge: Keys to Economic Growth and Job Creation in Maryland*, a report that names eight core pillars for a competitive business environment and job growth. One of the pillars deals specifically with tax structure:

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**Tax structure that is fair and competitive:** Maryland's tax policy must be perceived by business as being competitive and devoid of elements that unreasonably target specific businesses or business sectors.

Modifying the tax structure so that pass-through entities are given a reasonable maximum tax rate will bolster a competitive business environment and eliminate elements that disproportionately harm these businesses.

The Greater Baltimore Committee **requests a favorable report on Senate Bill 590.**