



POSITION STATEMENT

TESTIMONY PRESENTED TO THE SENATE BUDGET & TAXATION COMMITTEE

SENATE BILL 858 - INCOME TAX - SUBTRACTION MODIFICATION - NONPASSIVE INCOME OF A PASS-THROUGH ENTITY

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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 858 - Income Tax - Subtraction Modification - Nonpassive Income of a Pass-Through Entity.

Senate Bill 858 would allow members of pass-through entities to subtract up to \$50,000 of nonpassive income that is attributable to a pass-through entity from their federal adjusted gross income to determine Maryland adjusted gross income.

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

Under current law, pass-through entities are taxed no differently than individuals with high earnings. However, a business established as a pass-through entity is a highly accepted and utilized segment of the private sector that dictates well thought out tax policies to ensure they are able to thrive in our competitive markets. The current treatment of a pass-through entity without some form of subtraction modification creates a disproportionate impact.

GREATER BALTIMORE COMMITTEE

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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:

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.

The subtraction modification proposed in SB 858 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 858.**