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Testimony in Support of LD 191

An Act to Support Maine Businesses By Establishing a Pass-through Entity Tax and Tax Credit

Honorable Senator Grohoski, Representative Cloutier, and distinguished members of the Joint Standing Committee on Taxation. I am State Representative Jack Ducharme, and I am honored to represent House District 71 which includes Cornville, Madison, and Norridgewock. Today I am writing in support of LD 191, "An Act to Support Maine Businesses By Establishing a Pass-through Entity Tax and Tax Credit"

First, allowing small businesses to be taxed at the entity level makes sense. As evidence of that, take a quick look around the country. According to the Journal of Accountancy, “as of May 31, 2023, 36 states had enacted a PTET.” Why has nearly every state with an income tax passed this provision? Because it lowers the federal tax liability of small businesses, while increasing state revenues. To be clear, this lowers the overall tax liability of small businesses.

In my opinion, not passing this legislation puts Maine small businesses at a competitive disadvantage with their competitors. This is not a partisan issue. It is the law in states as different as California and Louisiana. In many states late to the game, like Maine, lawmakers have even made it retroactive, creating a financial boost for both businesses and the state.

A pass-through entity is a business structure legally akin to the individual(s) that own it. It is taxed at individual income tax rates and reports its income on the individual income

District 71
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tax returns of the business owner(s). A pass-through entity, which is different from a C corporation, is the most common business structure within the United States.

A pass-through entity tax (PTET) is a workaround to the state and local tax (SALT) deduction limit, enabling eligible pass-through entities to be taxed at the entity level for state income tax purposes. In short, a key benefit of PTET is that eligible pass-through entities can avoid the \$10,000 SALT deduction cap on deducting state and local taxes on federal individual tax returns. The SALT cap can prove especially costly for S corporations and partnerships, so a PTET election can be an attractive move.

I supported a similar bill in the 131st when it had a childcare component attached to it. The childcare piece was passed in the 131st and became law. It is time to pass the second piece of this tax policy to help support our local businesses.

Thank you for listening and I ask for your support for this legislation.

Cordially,

Jack Ducharme

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