

**Testimony Neither for Nor Against LD 191, An Act to Support Maine Businesses by Establishing a Pass-through Entity Tax and Tax Credit**

April 16, 2025

Sen. Grohoski, Rep. Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. We are testifying neither for nor against LD 191. This bill creates a new filing status in Maine for pass-through entities in order to allow business owners to decrease their federal taxes.

Filing as a pass-through entity would be elective for Maine businesses including S-corps, partnerships, and LLCs. Currently, owners and partners of these types of businesses do not file returns at the entity level, but rather their income is “passed through” and filed on individual income tax returns.

When the Tax Cuts and Jobs Act (TCJA) was passed in 2017, Congress created a \$10,000 cap on the amount of state and local taxes (SALT) individuals could deduct on their federal taxes. This had the impact of increasing federal taxes primarily for higher earners in higher tax states. By creating a new filing status to allow pass-through entities to file their state taxes as an entity, this proposal would allow individuals to avoid bumping up against the \$10,000 SALT deduction cap. This would allow filers to reduce federal tax payments and potentially increase the size of their refund. To do this, LD 191 proposes to create an income tax for pass-through entities consistent with Maine’s individual income tax rates, then allows the owners to take a 90% tax credit on their individual return for the portion of tax they have already paid through their business filing. The state keeps the remaining 10%. The tax filer is then able to deduct the full amount of state and local taxes on their federal taxes (with no cap on the amount they can deduct), thus lowering their federal taxable income.

As MRS states in its report on pass-through entity taxes, this would benefit a narrow range of high-income earners and would require significant resources to be redirected from other priorities, including enforcement and taxpayer services.<sup>i</sup> We do not support prioritizing state resources at the expense of other Mainers to create a tax loophole that primarily benefits wealthy taxpayers.

At the same time, we recognize creating a pass-through filing could have positive benefits. This proposal would increase state revenues that could help fund important priorities. Maine’s small businesses are facing the negative impact of tariffs and competitive disadvantages against large corporations and could benefit from this proposal. However, not all pass-through entities are small businesses. Many large, highly profitable, privately held companies are pass-through entities.<sup>ii</sup> Further, sole proprietors would not benefit under this bill.

We believe greater attention should be paid to how pass-through entities are taxed in Maine. Pass-through entity tax preferences have significantly contributed to income inequality in the US.<sup>iii</sup> Creating a separate tax filing status in the future would give the state an opportunity to better understand this revenue stream, but we do not believe it should be done solely to create a tax loophole.

Thank you for your time. I would be happy to answer any questions. [maura@mecep.org](mailto:maura@mecep.org)

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<sup>i</sup> Maine Revenue Services, *Study on the Adoption of a Pass-Through Entity Income Tax*, 31 Jan 2025.

<https://legislature.maine.gov/doc/11555>

<sup>ii</sup> Mitchell, David S. "Factsheet: What the research says about taxing pass-through businesses." Washington Center for Equitable Growth. 30 April 2024. <https://equitablegrowth.org/factsheet-what-the-research-says-about-taxing-pass-through-businesses/>

<sup>iii</sup> Ibid.