

## Testimony in Opposition to Part N of L.D. 2212

Dear Committee Members,

I am submitting this testimony in opposition to two parts of Part N of the budget, the pass-through entity tax proposal.

I do want to commend the Governor and Maine Revenue Services for including the pass-through entity tax (PTET) in the budget.

The PTET as proposed by Part N will be a significant step toward bringing Maine in line with the 36 other states and DC that have already adopted a PTET. The CPA Society supports much of the Governor's approach to a Maine PTET. However, Part N makes two significant changes to the CPA Society's proposal that we believe will put Maine residents at a disadvantage.

### **Issue 1: Smaller PTET base = Smaller benefit to Maine and Maine residents**

Most states with a PTET require that the tax base for the entity tax attributable to resident owners be based on that owner's total distributive share of the entity's income, versus using the resident owner's apportioned (Maine-source) income from the entity. This aligns with how Maine taxes resident PTE owners on their PTE income; 100% of their distributive share is subject to Maine income tax.

There are 3 significant benefits to the state of using 100% of a resident's distributive income to calculate the PTET:

1. **More revenue to the State of Maine.** Under the current proposal, Maine keeps 10% of the PTET (the credit that flows to the owners is 90% of the PTET). Using 100% of the Maine owner's distributive income will result in higher tax, which will generate more revenue for Maine.
2. **A larger federal tax benefit for Maine resident small business owners.** This will result in more funds being available to the owners.
3. **Conformity with other PTET jurisdictions.** About half of states with a PTET use this approach, including Massachusetts. A Maine PTET should not put Maine residents at a disadvantage.

### **Issue 2: No Maine resident credit for New Hampshire business profits tax**

Part N does not allow Maine resident owners to claim a credit for New Hampshire business profits tax paid by their pass-through entity. This means that Maine residents could get a credit for PTET paid to virtually every other state—except the tax paid by the pass-through entity to Maine's closest neighbor. This approach puts Mainers at a disadvantage; our neighbors in Massachusetts are allowed the credit for New Hampshire business profits taxes.

Thank you for your consideration of the points above. I would be very happy to answer any questions that you may have.

Very truly yours,

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Falmouth, Maine