



# HOUSE OF REPRESENTATIVES

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### *Testimony of Rep. Maureen Terry introducing*

### **LD 1891, An Act to Support Maine Businesses Through a Child Care Tax Credit and a Pass-through Entity Tax**

### *Before the Joint Standing Committee on Taxation*

Senator Grohoski, Representative Perry and esteemed colleagues on the Joint Standing Committee on Taxation, I am Rep. Maureen Terry, representing part of Gorham in House District 108. I am here today to present **LD 1891, An Act to Support Maine Businesses Through a Child Care Tax Credit and a Pass-through Entity Tax.**

I am honored to introduce legislation that seeks to bolster economic growth in Maine by addressing one of the key barriers to a strong workforce; insufficient access to child care. Over the years, I have noticed a trend among the business community, and especially among small businesses. More and more we are hearing that a key barrier for businesses is lack of child care options for prospective and existing employees.

I experienced this early on in my career at my first restaurant. If folks had access to child care, we certainly would have been able to attract and retain more employees, particularly women. When parents do not have access to reliable and affordable child care, it directly impacts their work productivity, even their ability to participate in the workforce at all, resulting in costs to parents, employers and ultimately, taxpayers. Quality child care is not only essential for the development and success of our children but it is also a crucial workforce issue.

The COVID-19 pandemic has further exacerbated the challenges faced by our child care system. We have witnessed a significant loss of workers, with 19 percent of jobs lost, equivalent to 167,000 jobs, including 141 child care providers that have permanently closed their doors. A spring 2021 survey revealed that 43 percent of child care providers could not meet the demand, and 58 percent reported being understaffed. Lack of child care facilities is still a key workforce issue facing our state. But building those facilities costs money, and as much as we have worked to incentivize different types of businesses in this state, we have not yet done enough to support more child care options. That is why I'm so excited about this bill.

It's unusual for the Maine legislature to take on the responsibility of both good policy and paying for it directly. This bill would do just that, though. LD 1891, will not only help establish child care opportunities, it will also help simplify small business tax filing with creating a pass-through entity tax (PTET).

We could pay for child care with general fund dollars from any revenue the state already accumulates, but that could mean taking money away from other programs that Mainers depend on. This bill addresses a workforce need while also proposing a way to pay for it without having to make cuts elsewhere. Since business, especially small business, are asking for help, this solution leverages the money Maine companies have been paying to the federal government and redirects that back here into the state to pay for the creation of more child care options. It is really the perfect private public partnership.

The PTET is a tax levied on entities classified as partnerships or S corporations for federal and state income tax purposes. It allows these entities to reduce their ordinary income by the amount of income tax paid, similar to how they do for payroll taxes and other state and local taxes. The direct partners, members, or shareholders of these entities experience lower federal taxable income and do not pay state taxes on the business income. Instead, they receive a refundable credit against their state personal income tax or subtract their business income from their regular state income, based on their respective ownership in the pass-through entity.

The child care credit portion of this bill provides businesses with the flexibility to support child care that aligns with their unique needs and considerations. It covers costs associated with acquiring, constructing, rehabilitating or expanding property to be used as part of a child care facility. It also encompasses operating costs, including supporting child care workers through training, scholarships and fair wages. Furthermore, employers are encouraged to contract with licensed child care programs, including home-based providers, to offer child care services to their employees, if that makes more sense for their particular situation.

By supporting access to child care, we can empower more Mainers who want to enter the workforce, we can support our small businesses who are struggling to retain workers, and we can capitalize on the immense interest and energy for economic development in the state. Additionally, by allowing more individuals, especially women, to reenter the workforce, we have an opportunity here to promote gender equity in Maine. This is also good for business. Companies that prioritize child care experience greater employee loyalty and foster a stronger workplace culture built around trust and community.

It is crucial to note that 35 states, along with one locality, have enacted or are considering legislation that creates a pass-through entity tax.<sup>1</sup> This proposed legislation aligns with this national trend.

By capitalizing on this commonly used pass-through entity tax to address our state's child care challenges, we can provide a solution for our families and children while also ensuring that more hard earned Maine dollars stays here in Maine rather than going to Washington. This legislation not only strengthens our workforce and economy but also creates a brighter future for all Mainers.

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<sup>1</sup> [34 Latest States with a Pass-Through Entity Tax - CrossLink \(crosslinktax.com\)](https://www.crosslinktax.com)