

Testimony of Linda Caprara
On Behalf of the Maine State Chamber of Commerce
In Support of L.D. 191, "An Act to Support Maine Businesses by Establishing a Pass-through Entity Tax and Tax Credit."

April 16, 2025

Good Afternoon, Sen. Grohoski, Rep. Cloutier and Members of the Joint Standing Committee on Taxation. My name is Linda Caprara, I am the Vice President of Advocacy for the Maine State Chamber of Commerce. We are testifying in strong support of L.D. 191, An Act to Support Maine Businesses by Establishing a Pass-through Entity Tax and Tax Credit. We would like to thank Rep. Hasenfus for submitting the bill.

We are pleased to testify in strong support of L.D. 191. First and foremost, this bill supports Maine's small businesses and Maine's family-owned businesses, which are the backbone of Maine's economy, by addressing the federally imposed \$10,000 cap on state and local tax (SALT) deductions. The bill would allow partnerships, LLCs, and S-corporations, to shift their state tax obligations from the individual level to the entity level, where the federal SALT deduction limitation does not apply. The bill as drafted would reduce the federal tax burden for Maine business while raising state revenues. This legislation is a top priority of the Maine State Chamber of Commerce this year.

The way the PTET works is PTET is a mechanism which allows certain business entities such as partnerships, LLC's, S-Corps to pay income taxes at the "entity level". Typically, with pass through businesses, income passes through to the individual owners who pay income taxes on their individual tax returns. Under the PTET, pass through entities would pay taxes at the entity level rather than at the individual level. The state and local taxes are paid by the entity and treated as a business expense and is deductible at the federal level, lowering federal income taxes. Business owners will receive an income tax credit on the Maine returns for state taxes paid at the entity level.

Maine Revenue Services (MRS) recently completed a report on the potential adoption of a Pass-Through Entity Tax (PTET) in Maine. While PTET is designed to help business owners reduce their

federal tax burden, the report suggests that Maine could also see a net gain in state revenue, depending on how the individual income tax credit is structured. One key factor in how much revenue Maine could gain is the credit rate given to business owners. According to the MRS report, if the state provides a credit of less than 100% of a taxpayer's PTET share, it will result in a net revenue increase. For example, if the state collected \$300 million in PTET revenue and offered a 90% credit, it could keep \$30 million in net revenue.

The lower the credit percentage, the more revenue the state keeps. However, the actual impact depends on the final credit rate Maine decides to implement. In short, PTET could benefit both business owners (by reducing their federal tax bill) and the state (by collecting more revenue upfront and keeping a portion of the tax paid).

Let me be clear, LD 191 is not a loophole. It is a work around that the IRS has given it's blessing to. The IRS issued a Notice in November 2020, Notice 2020-75 which allows a state tax deduction at the pass-through entity level and states have moved quickly to take advantage of this structure. A total of 36 states have adopted the PTET and many more are considering it. If Maine fails to adopt a PTET, it will continue to be an outlier.

We can see no downside to adopting this in Maine. The decision to utilize the pass through entity tax would be purely elective on an annual basis. It provides businesses with the flexibility to choose the tax treatment that best fits their circumstances each year. It provides clear guidance on filing, credit calculations, and reporting responsibilities. And again, it will produce more revenues for the State.

I urge the committee to give LD 191 your full support. I'm happy to answer any questions.