



190 West Ostend St., #201  
Baltimore, MD 21230  
Phone: 410.547.1515  
Fax: 410.837.5436

Patrick Moran - President

**Testimony**  
**HB 495 Income Tax – Internal Revenue Code**  
**Amendments and the Federal CARES Act- Decoupling**  
**Ways & Means Committee**  
**February 4th, 2021**  
**Support**

AFSCME Council 3 which representing 30,000 state and Higher Education employees supports HB 495. We believe the state must be committed to raising revenue to sustainably provide the resources it needs to make significant new investments in essential state services.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted in March 2020, included several costly federal tax breaks for businesses that will also reduce many states' personal and corporate income tax revenues because their tax codes are tied to the federal code. Some of these tax breaks have questionable merit at the federal level and make even less sense for states, which must balance their budgets each year. This will be an extremely challenging task given their sharp revenue declines since the pandemic hit. States will need to increase tax revenues during the next several years to minimize cuts in education, health care, infrastructure, and other critical services, which would disproportionately harm low-income people and people of color. Their immediate priority must be to preserve existing revenue sources by avoiding unnecessary and unwarranted tax cuts.

While there are numerous tax provisions in the CARES Act from which states should consider decoupling, three require the most urgent attention because they will likely result in the most significant near-term revenue reductions. Special treatment to pass-through companies such as LLCs, partnerships, and S-corporations by allowing them to avoid paying corporate income tax, instead "passing through" their profits directly to shareholders. This tax break creates an incentive for large businesses to reduce their tax responsibilities by using this form of legal organization. The 2017 federal tax overhaul expanded special treatment of pass-through income by creating a sizable new deduction for individuals with pass-through income.

While it is true that most pass-through businesses in Maryland are small, the greatest profits are flowing through very large businesses that choose these business structures specifically to avoid corporate income taxes and take advantage of additional deductions available to pass-through businesses. Closing the LLC loophole would ensure that these large passthrough entities pay their fair share in taxes while protecting small businesses who rely on these structures.

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800.492.1996

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As Marylanders consider major investments, we will need to strengthen the foundations of our economy in future years by prioritizing ending special interest tax breaks and corporate loopholes, making our tax code more equitable, and raising significant new revenue. House Bill 495 would accomplish all three goals.

For these reasons, we ask for a favorable report on House Bill 495.