

SENATE BILL 282

Q3
HB 1384/14 – W&M

5lr1497

By: **Senators Bates, Cassilly, Eckardt, Edwards, Hershey, Hough, Jennings,
Salling, Serafini, Simonaire, and Waugh**

Introduced and read first time: February 5, 2015

Assigned to: Budget and Taxation

A BILL ENTITLED

1 AN ACT concerning

2 **Income Tax Credit – Pass-Through Entities**

3 FOR the purpose of allowing an individual a credit against the State income tax equal to
4 the amount by which the tax, when applying a certain effective tax rate, on the
5 individual's distributive share of pass-through entity income exceeds the tax on the
6 individual's distributive share of pass-through entity income when applying a tax
7 rate of a certain percentage; providing that an individual may not claim the credit if
8 the individual's effective tax rate is less than a certain percentage; defining certain
9 terms; providing for the application of this Act; and generally relating to an income
10 tax credit for income from certain pass-through entities.

11 BY adding to
12 Article – Tax – General
13 Section 10-737
14 Annotated Code of Maryland
15 (2010 Replacement Volume and 2014 Supplement)

16 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
17 That the Laws of Maryland read as follows:

18 **Article – Tax – General**

19 **10-737.**

20 **(A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS**
21 **INDICATED.**

22 **(2) “EFFECTIVE TAX RATE” MEANS A FRACTION:**

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 **(I) THE NUMERATOR OF WHICH IS THE STATE INCOME TAX**
2 **LIABILITY OF THE INDIVIDUAL BEFORE THE APPLICATION OF INCOME TAX CREDITS;**
3 **AND**

4 **(II) THE DENOMINATOR OF WHICH IS THE MARYLAND TAXABLE**
5 **INCOME OF THE INDIVIDUAL.**

6 **(3) “PASS-THROUGH ENTITY” MEANS:**

7 **(I) AN S CORPORATION;**

8 **(II) A PARTNERSHIP;**

9 **(III) A LIMITED LIABILITY COMPANY THAT IS NOT TAXED AS A**
10 **CORPORATION UNDER THIS TITLE; OR**

11 **(IV) A BUSINESS TRUST OR STATUTORY TRUST THAT IS NOT**
12 **TAXED AS A CORPORATION UNDER THIS TITLE.**

13 **(B) (1) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS SUBSECTION,**
14 **AN INDIVIDUAL MAY CLAIM A CREDIT AGAINST THE STATE INCOME TAX EQUAL TO**
15 **THE AMOUNT BY WHICH THE TAX ON THE INDIVIDUAL’S DISTRIBUTIVE SHARE OF**
16 **PASS-THROUGH ENTITY INCOME WHEN APPLYING THE EFFECTIVE TAX RATE**
17 **EXCEEDS THE TAX ON THE INDIVIDUAL’S DISTRIBUTIVE SHARE OF PASS-THROUGH**
18 **ENTITY INCOME WHEN APPLYING A RATE OF 2.875%.**

19 **(2) AN INDIVIDUAL MAY NOT CLAIM THE CREDIT ALLOWED UNDER**
20 **THIS SECTION IF THE INDIVIDUAL’S EFFECTIVE TAX RATE IS LESS THAN 2.875%.**

21 **(C) THE UNUSED AMOUNT OF THE CREDIT MAY NOT BE CARRIED OVER TO**
22 **ANY OTHER TAXABLE YEAR.**

23 **SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July**
24 **1, 2015, and shall be applicable to all taxable years beginning after December 31, 2014.**