CLOSING THE LLC LOOPHOLE

MARYLAND
FAIR FUNDING
COALITION

When people think about so-called "pass-through" businesses, which use legal structures like LLCs or S-corporations, they are often envisioning small, local businesses that have a handful of employees. These structures appropriately allow small-business owners to pay taxes through the personal income tax, rather than the corporate income tax.

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 pass-through entities pay their fair share in taxes while protecting small businesses who rely on these structures.

CLOSING THE LLC LOOPHOLE WOULD GENERATE AT LEAST **$300 MILLION IN REVENUE PER YEAR.**

HOW IT WORKS:

This legislation would partially offset the special tax treatment by levying a 4 percent tax – less than half the corporate tax rate – on the largest pass-through businesses. The tax would be paid at the entity level, before the profits are "passed through" to the owners.

It would only apply to businesses with over $1 million in profits (after expenses) in a given year. Less than 2 percent of pass-through businesses in Maryland are this size.

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