

Maryland Business Tax Reform Commission Business Incentives in the Tax Code Subcommittee

Key Responsibility: Investigating and analyzing the pros and cons of business incentives in the context of Maryland's economy and business tax structure pursuant to the statutory charge in the 2007 Special Session legislation.

Business Incentives in the Tax Code Subcommittee – Summary

This subcommittee will address the statutory directive of considering “improved methods for evaluation of the effectiveness and efficiency of tax policies intended as economic development incentives.” This Subcommittee will consider the pros, cons and effectiveness of business incentives in the Maryland tax code.

Members: Chairman Wacks

Christian Johansson
Michael Leszcz
James Kercheval
Steven J. Banks
Jennifer Yang Japp
Senator Richard S. Madeleno, Jr.
Delegate Sheila Hixson
Linda Tanton
C. John Sullivan
Senator Verna Jones

Timeline:

October – April – Subcommittee Meetings (include at least one for public testimony)

- **Overall Structure of Subcommittee Activity**
 - Subcommittee will meet every other Thursday (2x's per month), except during the General Assembly Session (January 13 through April 12), when meetings will occur late Monday afternoon (in general - meetings will occur every other week from the Business Reporting Subcommittee)
 - 2 hour meetings
 - Separate Subcommittee analysis into segments
 - 2 – 3 meetings per topic
 - Education / Knowledge Base – to provide the opportunity for each Subcommittee member to develop an understanding of the issues
 - Discussion
 - Develop Findings – Pros / Cons (i.e., written materials will be developed by the Subcommittee throughout the process)

- **Chronology of Analysis of Topics**
 - November / January –Income Tax Incentives (e.g., income modifications, credits, and apportionment)
 - What purpose do business incentives currently serve in Maryland?
 - How should Maryland use business incentives, i.e., regional, national or global attraction? i.e., who is the competition?
 - Virginia/Delaware/West Virginia/Pennsylvania,
 - Other US regions
 - Non-US
 - Types of business incentives (may be overlap between categories, but each is discrete) – survey of existing Maryland incentives and potential universe of other incentives that Maryland does not currently use:
 - Ad hoc, taxpayer specific incentives
 - Industry incentives (e.g., Biotechnology Investment tax credit)
 - Geographic incentives (e.g., Enterprise Zone tax credits)
 - Incentives available to any business to induce certain behavior (e.g., jobs credit applicable to any employer that hires a certain profile of worker)
 - Incentives currently used in the MD Tax Code
 - How effective are our current incentives? How do we measure the effectiveness? Are better methods available?
 - Should ineffective incentives be repealed?
 - What incentives do our competitors use?
 - Benchmark scope and effectiveness
 - New incentives targeting economic growth and development?
 - Administrative issues – (e.g, difficulties with quantifying costs).
 - Develop Pros / Cons
 - January / February - Sales Tax Incentives
 - How does the sales tax incentivize economic activity?
 - Impact of remote sales (Internet, etc.) on business sales tax base
 - Streamlined sales tax initiatives
 - Special Taxes in lieu of or in addition to sales tax – car / hotel rentals, admission charges, other local taxes, etc.
 - How effective are the current incentives? How do we measure the effectiveness? Are better methods available?
 - Should ineffective incentives be repealed?
 - Compare with other states
 - New incentives targeting economic growth and development?
 - Broaden sales tax base (e.g., services)?

- Nexus – for sales tax
- Administrative issues
- Develop Pros / Cons
- February / March – Misc Taxes (e.g., property and franchise taxes)
 - History & Fundamental of the different taxes
 - How does each incentivize economic activity?
 - How effective are the current incentives? How do we measure the effectiveness? Are better methods available?
 - Should ineffective incentives be repealed?
 - Compare with other states
 - New incentives targeting economic growth and development?
 - Administrative issues
 - Develop Pros / Cons
- March / April
 - Public Testimony as Necessary
 - Discuss Pros / Cons of Findings
- Late April / Early May
 - Draft Report
- Late May / Early June
 - Final Report to full Commission

Knowledge Base:

- Department of Budget Management Tax Expenditure Report, DBED Materials from COST, Center on Budget and Policy Priorities, Multistate Tax Commission, etc.
- Reading materials submitted to Chairman Wacks and subcommittee members in advance for preparation.
- Presenters / Educators at meetings – consultative function.

Minutes / Notes –

Minutes will be kept for each meeting to be published on the Maryland Business Tax Reform Commissions’ Website. This will enable participants who are not able to attend meetings to virtually attend the meetings, as the published minutes of the meetings will make the meeting transparent.

Draft & Final Report –

To be discussed in Subcommittee – members should volunteer to draft pieces of the Report for discussion / review of the subcommittee. A process for drafting and finalizing the report will need to be implemented.

Business Incentives in the Tax Code Subcommittee – Charge

This subcommittee will address the statutory directive of considering “improved methods for evaluation of the effectiveness and efficiency of tax policies intended as economic development incentives” including sales tax, tax credits and other tax expenditures. This Subcommittee will consider the pros and cons of business incentives in the Maryland tax

code and possible alternatives.

Governance Structure:

- Each Subcommittee will identify, analyze and document the pros and cons of the aspects of the reporting regimes and business incentives described above without making a specific recommendation. This approach is intended to encourage the production of ideas and materials that will assist the Commission in reaching its recommendations.
- Each Subcommittee will present this analysis for consideration by the full Commission which will determine the recommendations to be made in Commission reports.
- While each Commission member will be assigned to one Subcommittee, all Commission members are welcome to participate in both Subcommittee activities if they choose to devote the time.