



Maryland Bankers Association

KATHLEEN M. MURPHY
PRESIDENT & CEO

November 9, 2010

Mr. Raymond S. Wacks, Chairman
Maryland Business Tax Reform Commission
Louis L. Goldstein Treasury Building
80 Calvert Street, P.O. Box 466
Annapolis, Maryland 21404-0466

RE: Maryland Bankers Association Comment Letter - November 9, 2010 Public Hearing

Dear Chairman Wacks and Members of the Maryland Business Tax Reform Commission:

The Maryland Bankers Association (MBA) commends the Maryland Business Tax Reform Commission for their work in examining State's business tax structure and making recommendations on how to improve that structure. This is an important undertaking and we appreciate the Commission's open process that has allowed for input from various sectors. Due to scheduling conflicts, I am unable to attend today's public hearing and therefore provide verbal testimony. Please accept this letter as MBA's comment for the record.

- **Background: Maryland Bankers Association and the Maryland Banking Industry**

As federally insured depository institutions, MBA's members (state-chartered banks, national banks, federally-chartered thrifts, state banks chartered outside of Maryland) are subject to State and national regulations. The 135 banks operating in Maryland hold over \$100 billion in deposits, have more than 1,800 branches, and employ over 40,000 banking professionals. On average, each employee dedicates over 100 hours in community leadership positions each year.

We are currently in the midst of one of the nation's worst economic downturns on record. Banks reflect the communities they serve and banks, like their communities, are a reflection of our economy. Like many other business sectors and banks nationally, profits have declined overall for Maryland banks from previous levels. Maryland-headquartered banks now number 88 banks, down from 95 as of year-end 2008. This decrease resulted from mergers and combining of bank charters by some bank holding companies and a handful of bank failures. However, Maryland banks overall are prepared to weather the storm and remain strong. Capital is king and Maryland banks have strong capital levels - 94% are "well capitalized," the highest rank by the FDIC. This is a 1% improvement over the previous quarter.

Also, contrary to what you see in the media, Maryland banks continue to lend to consumers and businesses. Loan growth between Q2 2010 and Q2 prior year was one percent. While this may not seem like a sizable number, it is in sharp contrast to the lending trends during other recessions (typically lending decreases by about 3% during recessions). Maryland banks are invested in and work with their communities in mitigating adversity.

- **MBA Position: Oppose Combined Reporting and Avoid Adopting Tax Changes that Will Negatively Impact Maryland's Struggling Businesses**

While we understand that the Commission is considering an array of tax structure changes, our comments today are limited to a general concern about the overall tax structure and to our opposition to combined reporting. MBA is very concerned that changing Maryland's current tax structure with the objective of increasing tax revenue may have a disastrous impact on businesses that are already struggling with a myriad of economic challenges. The vast majority of banks in Maryland are small businesses themselves, working to digest the new financial regulatory reform legislation and to adjust their business models to address more than 50 new federal laws and regulations. These changes have required significant resources and come with significant costs that impact banks' ability to serve customers and communities. MBA is opposed to tax changes that would compound these challenges by increasing costs and negatively impact Maryland's businesses and economy.

According to the Maryland Chamber of Commerce's recent Analysis of Maryland's Business Tax Competitiveness, "Maryland has the highest effective tax rates for the representative financial services firm and the professional services firm. Illustrating this point, the tax study found that Maryland's business taxes for financial services are 55 percent higher than Pennsylvania. An additional tax burden on Maryland's businesses will serve as a barrier to economic recovery.

We have had a long-standing position of opposition to changing Maryland's tax law to require affiliated corporations to compute Maryland taxable income using "combined reporting," and requiring that income attributable to Maryland be derived using a "waters edge" method. Under "combined reporting," all of a corporation's subsidiaries are included in a single return. This allows the State to subject companies with no presence in Maryland to taxation.

Combined reporting requires corporations to file a Maryland tax return that includes all of the entities in a consolidated group and not just the entities that are doing business in Maryland. This change would result in a significant increase in the regulatory burden and costs on corporations, create an incentive for corporations operating within Maryland to move significant portions of their operations outside of the State to reduce their apportionment factor and potentially result in corporations currently in the State choosing not to increase their presence in Maryland.

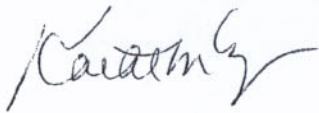
According to a Maryland Department of Fiscal Services fiscal note on a combined reporting bill, "The extent of any State revenue increase depends on the net change in corporate tax liabilities and can not be reliably estimated." Due to the negative impact combined reporting would have on banks operating in multiple states that have, in some cases, thousands of subsidiaries and the

uncertainty that such a drastic change in the corporate tax structure will actually result in increased revenue, the Maryland Bankers Association urges the Maryland Business Tax Reform Commission to refrain from recommending combined reporting.

Additionally, as you consider your recommendations, we urge you to take into account the further pressure that changes to Maryland's tax structure will place on businesses during this economic downturn, hampering continued economic recovery.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathleen M. Murphy". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Kathleen M. Murphy
President and CEO
Maryland Bankers Association