MARYLAND BUSINESS TAX REFORM COMMISSION

Raymond S. Wacks, Chairman

Maryland Business Tax Reform Commission

May 27, 2010
Minutes of Meeting

A meeting of the Maryland Business Tax Reform Commission was held in the Louis L. Goldstein Treasury Building, Assembly Room on Tuesday, May 27, 2010 at 2:00 p.m.

Those present were:

Raymond Wacks, Chairman

Steven J. Banks, Greater Baltimore Committee
James Kercheval,
Senator Verna Jones
Michael Leszcz,
Senator Richard S. Madaleno, Jr.
Paul Nolan, Manufacturer's Alliance of Maryland
Karen Syrylo, Maryland Chamber of Commerce
Linda Tanton, Deputy Comptroller

David Roose, Bureau of Revenue Estimates
Marc Nicole, Department of Budget and Management

The meeting was open to the public and members of the local government, state government, media, as well as others, were in attendance.

Welcome and Introduction

Chairman Raymond Wacks opened the meeting at 2:04 p.m. Our major goal today is to plot out the path we will take to reach a final report on December 15th. Before we get to that discussion I would like to get an approval of the January 7th minutes.

Paul Nolan: I would like to compliment Linda on the incredible detail and accuracy on these meetings; two minor changes on page 12 which I can show her.

Raymond Wacks: With the changes I would like to make a motion to adopt the minutes with changes, is there a second, seconded. Minutes adopted.

The biggest challenge that we now have is to produce a final report and present it to the Governor and General Assembly by December 15, 2010. David would you like to walk us back a bit and talk about, at least as a starting point.

Determination of Procedure

David Roose: The proposed meeting schedule that was distributed at the May 18th meeting with the exception of the June 3rd meeting of the Business Incentive in the Tax Code Subcommittee and the June 10th Business Tax Reporting Subcommittee, it is basically a blank slate until November 16th at which point the commission will develop the recommendations, vote on them with final report due on December 15th. Other than those dates for right now, we can ignore dates for purposes of this discussion. The subcommittees can essentially decide or the commission right now on how the subcommittees are going to proceed. The thought has been that each subcommittee will not be developing recommendations, but will be discussing the issues that have been raised;

- determining pros and cons;
- advantages and disadvantages;
- Report back to the full commission.

The full commission will then continue the discussion and work towards recommendations. I think there are a handful of things that you ought to discuss;

- Other issues that have not been discussed; how do we get these on our agenda;
- How the subcommittees should operate –consensus versus votes.

Senator Jones: How will the public comment or how will the public hearing be integrated into our final report?

Raymond Wacks: I was thinking that if in fact the two subcommittees are going to prepare issues with pros and cons for each issue. Somehow that information ought to be public and that can be the basis for our public hearings that we may have during the summer. Then take those comments into account as we prepare our final recommendations in the fall.

Senator Jones: David just said we can pretty much ignore that and if that is going to be part of the subcommittee work I think we have to factor that in.

Raymond Wacks: Actually the first step in the process and the second hardest step will be to develop the issues and to list the pros and cons of those issues and how to figure out how to make those public and that seems to me should be the basis for our public discussions. With that information and the comments we receive from the public then it will be the job of the commission to prepare specific recommendations and a report or reports depending on what the committee votes on.

But again, I am open to your discussion and input. I am open to the guidelines and advice you have for us.

Karen Syrylo: I think the way you just laid it out is logical. The timing is the concern I have with a public hearing the first of July. Also the amount of time we need to prepare the list to have a productive meeting in front of the public so that they can give us good input. It would appear to me having a public meeting in September or early October would be better.

Michael Leszcz: I agree with what Karen just said; we best plan for the folks after the kids go back to school. Its summertime, we really want to get public input to include their issues to the Governor in our final report.

Paul Nolan: Given the realities of primaries in September and general in early November and the summer reality, what is the best time for the commission to be open to the public?

Discussion continued regarding public hearings and when is the best time to hold a public hearing.

Raymond Wacks: It strikes me that not necessarily most difficult but the most complicated part of our job is to develop our list of alternatives and the pros and cons of those alternatives. Once those are developed the discussion over them can take place relatively quickly because the issues will be clear. Develop pros and cons over the summer and have available to publish in perhaps late August, circulated so that we could hold our hearings in early to mid September after the primary.

Steven Banks: Will be having the ability to meet adhoc or do we have to meet in public each and every meeting?

Raymond Wacks: My sense is that this is a public body and we have to meet in public. This is where the pressure is going to fall on the staff; to take this information from us and compile it into these reports.

Steven Banks: Perhaps what we do in the next two weeks is schedule the meetings over the course of the summer so we have dates and times available if we need to meet.

David Roose: Seems to me every other Thursday based on the 3rd and the 10th for the two subcommittees would be the dates to block out. Let the subcommittees decide on their own how much time will be involved.

Karen Syrylo: I would like some clarity on the issue of which of our meetings need to be public and whether there is some possibility for some smaller group meetings for efficiency group sake.

Senator Jones: I don't think that the subcommittees would be making recommendations to the full committee because you don't want the committee as a whole to redo all of the work of the subcommittees.

Paul Nolan: I know that's typical but in this commission because the size of the subcommittees and the size of the commission, we discussed this a long time ago and it was decided that the subcommittees wouldn't do that and they would try write down all the pros and cons and the full commission could hear all the pros and cons and make its decision. There really is only one tier of ownership.

Senator Jones: I think to be efficient, it would just seem to be duplicative; pros and cons laid out in a format and you present all the issues to be considered then the subcommittee makes the decision but everyone still has all the information. You come out of the subcommittee with a recommendation.

Paul Nolan: Practically speaking part of the reason was because we have such uneven attendance; the idea was to enable the full commission members who do attend to have the opportunity to weigh in at the right time and to avoid dragging the subcommittees into a kind of recommendation discussion that might be counterproductive. At the end of the day, they are not going to decide on anything, it's going to be the full commission to decide.

Senator Jones: Maybe I don't understand, what is the purpose of the subcommittees?

Raymond Wacks: The job of the subcommittee it to look at all the alternatives that we have discussed over the years and list the pros and cons of each of those various alternatives so that we can then hold public hearings and take public comments on them. Then take decisions and votes on what we want to recommend.

Senator Jones: Maybe I am not seeing clearly. It is sounding like as far as the process; we are talking about a process where the subcommittee collects the information, simplifies the information, makes recommendations but all of the information is provided for the entire commission to look at.

Raymond Wacks: That is correct. I think what we are anticipating is that we may not be able to reach a consensus on several issues and so we want to make sure everybody has a chance to look at all the issues. We may end up with a minority report, a majority report or two separate reports.

Senator Jones: The aim would be for the subcommittee to make a recommendation and where they could not come to a consensus then to bring them back to the table.

Paul Nolan: That would be counterproductive.

Raymond Wacks: I think the feeling was again to spend October and November for the full commission. Once we have seen all the pros and cons, heard what the public had to say, then for the commission to debate them in open session and make final recommendations. But again we are here to talk about that.

I think we felt that some people wanted to be on both subcommittees and could not. They would feel excluded if they were not allowed to vote on certain issues that were before that subcommittee.

Senator Jones: I understand what you are saying but I think that if the final recommendations are brought on by the entire commission then that takes care of it. You are not saying anybody is being excluded from any decision; it's just the efficient working of a subcommittee.

Raymond Wacks: I guess I would modify what you were saying to say that if for some reason the subcommittee felt they could reach some consensus, they have the right to say that.

Senator Jones: Sure.

Paul Nolan: Because otherwise senator what you do is mandate a recommendation, then you have

Interruption.

Senator Jones: I did not say anything about mandating; we were communicating. I agree with what the chairman says.

Paul Nolan: Well if there's a consensus, fine, but I think we should get all the information out so the full commission has it.

Senator Madaleno: My only concern is pushing the public hearings off until September, in an election year where tax issues maybe an often discussed issues, in eight weeks between the primary and the general will the public hearing become a useful opportunity in September to have informed testimony that could be beneficial to our work or will it be an excellent time for people to vent or give campaign speeches, etc.

Raymond Wacks: Would it be any different in August?

Karen Syrylo: I don't think it would be any different if it were tomorrow.

Discussions continued on public hearing and the best time to hold.

Senator Madaleno: I think we need to be more careful than usual to put out questions of what we are looking for in public testimony. What these issues mean for business.

Raymond Wacks: What you seem to be saying as part of our development of alternatives maybe we should pose several questions as a result of those pros and cons that we could ask people to address in their testimony?

Senator Jones: Yes, and I think that would help us to sharpen our thinking and how we are looking at these issues.

Raymond Wacks: Well we just added a new level of complexity to our staff but I think that makes sense.

What kind of notice do we have to give for these public hearings and how far in advance do we have to schedule them to meet the public disclosure requirement?

David Roose: Several weeks depending on the cycle of the Maryland Register. It comes out bi weekly with publication deadlines somewhat earlier.

Raymond Wacks: It sounds like the direction we are going is that these next two meetings of the subcommittees will be critical in determining how we proceed through the summer to develop our:

- Listing of issues;
- Pros and cons associated with each proposal;
- Develop questions we would like testimony on.

Then we can decide when we need to meet in September and October and into early November. If we do a good job this summer, writing the actual commission reports won't be as difficult. Makes these subcommittee meetings we are going to have over the next month all the more important in terms of getting a meaningful product for the commission.

Meetings on the 3rd and the 10th what do you anticipate will happen at those meetings?

David Roose: I think those meetings will entail open discussion, one item agenda. Like I said, I have heard from several commission members that there are still some issues that they would like to see addressed. The subcommittees need to provide their own direction of determination of what issues are important.

Raymond Wacks: Let me ask the commission members and the staff members if they could compile a list of the issues we feel need to be addressed so that we have a starting point.

David Roose: If the subcommittee members could get to us their list the by the day before their respective meeting we will have it ready for the meeting.

Raymond Wacks: We ought to aim for completing this list of pros and cons and questions by the mid to end of August. As we get closer we can decide when to hold the public hearings.

David Roose: Just a note the meeting on the 10th is in the Ways and Means Committee Room.

Presentation and Analysis of Options Submitted by Commission Members

David Roose: This packet is a number of issues that various commission members have asked us to investigate further and put some numbers on about some possible changes to Maryland tax law. For most of the issues patterns are the same for Joyce and Finnigan but we will have all that detail available on the website.

Please refer to the Maryland Business Tax Reform Commission website for the Analysis of Various Commission Requests.

http://btrc.maryland.gov/BTRsub/documents/Commission_Requests_Packet.pdf

As of right now we have no estimates for the revenue affect for future tax years. We are looking at what these changes would have done in tax year 2006 and 2007. We are going to make every effort to come to some conclusions to what these changes would mean or any other changes for fiscal 2011, 2012 and 2013.

Raymond Wacks: How would you characterize the difference between 2006 and 2007 in terms of the general economy?

David Roose: The economic conditions were roughly the same and certainly in terms of looking at distribution effects, the changes of tax burden across industries. Generally those things appear to be the same for 2006 and 2007.

Raymond Wacks: So in 2008 we would really see the difference but we are not going to have those in time?

David Roose: Obviously having some interest in the tax year 2008 results of the combined reporting study before the commission makes its recommendations. The last due date for tax year 2008 information reports is October 14th of this year. I think that will give us time by early November to have developed the full study of tax year 2008. We are also going to look at with no commitment yet, the calendar year taxpayers for tax year 2009 which we will have by October 15th of this year and compare that to other calendar year taxpayers by early November.

Karen Syrylo: Could you clarify a few sentences; you said you were going to make every effort to come up with an estimate for 2010, 2011and 2012. Are we talking about the same time in November?

David Roose: I think some of these things are simpler than others and obviously it may weigh into the deliberations of the subcommittees. We are going to get started on that now. I think there are some issues particularly the combined reporting and what that is doing, what would happen to that under recent conditions. We have made some attempts to try and work out but it is very difficult to be confident that what we are doing has any bearing on reality.

Karen Syrylo: If I could offer that we have the upmost confidence in you as our economics numbers guy to at least come up with some kind of number that we all can be reviewing.

David Roose: Essentially we are approaching it from several different directions as we do with many things and if we are closing in on a number than that's the number but that one is very complicated because it is a very fundamental change in the tax structure we don't really know yet what the dynamics are. A number of these other proposals such as the gross receipts tax, and some other things are much easier to deal with.

Karen Syrylo: I certainly would agree with you that combined reporting is the most complicated and yet it's probably the most important because there is such a difference between the economic situation today than 2006 or 2007. Some of us believe it is entirely possible that combined reporting would create revenue loss if we were to implement it for next year.

James Kercheval: When did we pass legislation that closed some of the other loopholes?

Karen Syrylo: It became effective in 2004 tax years.

James Kercheval: So there really wasn't any significant legislation that changed any loopholes following 2007?

Linda Tanton: Captive REIT.

James Kercheval: But that really would not have had any impact.

David Roose: As we go through this material now please feel free to offer any observations or questions now and again this is an awful lot of information which will lead to future discussion. Please feel free to e-mail us with any questions you may have.

The first thing we were asked to look at is the Combined Report Studying results broken out by Maryland property and Maryland payroll.

Karen Syrylo: The Maryland modified income means for example its goods that were shipped into state into Maryland and therefore the sale of that good is deemed to be taxable income here as long as they have nexus.

David Roose: No, the Maryland modified income is the income for apportionment.

We were asked to show the same information based on Maryland property and Maryland payroll which is an attempt to look at how the move to combined reporting will affect those entities by their physical presence in the State of Maryland.

Senator Madaleno: Can you go over the difference between Joyce and Finnigan?

David Roose: Joyce and Finnigan are two methods of apportioning income or determining how much income in the state can be taxed by Maryland under combined reporting. Combined reporting as we are looking at the entire economic enterprise as a whole, not the individual entities that comprise that enterprise some of those entities will have nexus with Maryland right now and pay corporate income tax to the state while there are others that have no physical presence in the state but do make sales into Maryland. Then there is a third set of companies that have no physical presence into the state and also make no sales into the state. Under combined reporting the income of all of those three types of entities is considered for the income of the group and to determine how that income is taxed;

Under Joyce:

- The numerator of the apportionment factor only includes those entities that have nexus in Maryland, those entities that already pay tax.

Under Finnigan:

- The numerator includes those entities that already have nexus in Maryland plus those that make sales into the state.

So, it’s never to measure the economic activity of the group as a whole that takes place in the State of Maryland.

Senator Madaleno: Joyce with throwback?

David Roose: And Joyce with throwback would include in the numerator for the State of Maryland those sales that are made by the entities that have nexus into a state in which they are not taxed because they don’t have nexus or that state does not have income tax.

Steven Banks: In a combined unitary organization, let's say there are ten companies that would decide the members of the unitary group, the combined income of that is $10 million to those ten companies. That's going to be allocated somehow to the state so the only thing Joyce and Finnigan does is determine which of those ten companies you use to calculate the percentage but the entire $10 million for the whole group will be allocated.

David Roose: It is just a difference in the apportionment factor not just the overall income that is being apportioned.

Generally speaking Finnigan will result in a higher apportionment factor because you are including the sales made into the state.

Senator Madaleno: So why did you do throwback with Joyce and not throwback with Finnigan.

David Roose: At the time we initially did these a year and a half ago our understanding of the issues was not as great as it is now. Jane Steinmetz from PriceWaterhouseCoopers did discuss throwback in the context of Finnigan but I am not aware of any states that do that.

I think it is generally the case across the country that throwback is coupled with Joyce; correct me if I am wrong.

James Kercheval: Why is property a billion and up? It seems to be the highest tax paying the most and then you look at under payroll and it's a decrease. Is there any reason for that, it seems to be consistent across all years?

David Roose: That is one of the few instances in these when there does seem to be a difference. Just because you have a large amount of property in the state doesn't necessarily mean you have a very large payroll or a very large modified income for that matter. Generally speaking the changes get bigger as your measure of size gets bigger.

Unknown: The largest companies of the state would be the biggest beneficiary of this, is that fair to say?

David Roose: Large companies as measured by payroll in the aggregate, yes.

There are other ways to look at this such as in terms of percentage of their current tax liability; any number of ways the state it can be manipulated can be looked at. We were asked to provide this.

Karen Syrylo: What your saying is **i**t is a very small percentage of companies when you are looking at the $250 million payroll we are talking about fifteen companies, nine of whom pay less tax, five of whom pay more tax. So those people who are paying more tax are still not going to like this.

David Roose: So just another way of looking at the information that was provided in the reports we offered last March and earlier on the combined reporting.

Karen Syrylo: Thank you for doing this David.

David Roose: As you review this feel free to give us a call if you have any comments or questions.

The second issue we were asked to look at was as everybody would recall right now a single factor apportionment for manufacturers and a handful of other types of entities. The question was what if we had single sales apportionment for every type of business under separate entity reports. The only change we would make is with most taxpayers from the double-weighted sales three factor apportionment to a single factor based on sales. That is what the next table show.

Page 7, tax year 2006 and 2007; if we apportion the income base solely on sales the revenue effect would be relatively minor; tax year 2006, $3.6 million, out of $486 million of the affected companies, 2007 $10 million revenue loss out of $450 million of revenue.

Steven Banks: Are these numbers inclusive of manufacturers or is it everybody but manufacturers?

David Roose: Manufacturer's are unaffected; they are completely excluded from this table. They already have single sales; this change would not affect them.

The reason there is only 9,000 entities showing, you will recall we have

Interruption.

Steven Banks: I am sorry, I am not sure you understood my question. Did you recalculate manufacturers under both methods or are we just excluding from these tables?

David Roose: Well they are excluded again under current law they are single sales. We have the studies that show essentially what the effect would be

Interruption.

Steven Banks: You couldn't do it because you don't have three factor information.

David Roose: Well we do from the studies that were done.

Karen Syrylo: Manufacturers are required to report that.

David Roose: Right. No, we have those studies. For this purpose which is taking current law and making everybody single sales, manufacturers are irrelevant.

Steven Banks: What I am trying to do is figure out if I have to consider these numbers plus the other numbers that you reported on manufacturers combined together or is this.

David Roose: No, if the question is, "what if we made everybody single sales," that's what this is. If the question is, "what if we put manufacturers back to double-weighted sales"; we have that answer but not here.

There are only about 9,000 entities here. You will recall from last week and several other discussions there's about 65,000 – 70,000 current corporate income taxpayers in the State of Maryland. What we looked at for this purpose; we took two changes to the overall number, the one is obvious, those are the companies that are 100% Maryland companies. All of their sales, payroll, and property are in Maryland. It doesn't matter whether they have double-weighted sales apportionment, single factor apportionment of anything; they aren't affected by this change. We also looked at taxable companies; if a company had a loss in tax year 2006 or 2007, they were excluded.

A relatively minor and almost immaterial change for revenues the state and this is out of total corporate tax revenue of $8 or $900 million. The change for an entity could be substantial; 3,500 taxpayers in both years would come out ahead under single sales and about 55 - 58 hundred would pay more tax under single sales.

Raymond Wacks: Is there anyway to characterize by size again?

David Roose: We don't have that by size.

Paul Nolan: The relative distribution; winner/losers is the same 2007 versus 2008 but then you get that swing. I take that $3.6 million plus versus $10.4 minus maybe not that big, but every dollar can count so you have that $14 million swing and the winners and losers are the same. Is there anything particular in the data, one particular industry that was doing worse in 2007?

David Roose: The answer is no. We have not yet found anything that answers that. I think that is because we are talking about really big numbers and the change around zero because the change is relatively insignificant.

The graph on page 8 does show the tax change by industry from the move to single apportionment. Moving to single factor for 2006 and 2007 would pay more; construction industry, utilities a bit, retail trade and information services; businesses that would pay less; finance industry, educational services in particular, accommodation and food services and several others. To a degree the reason you see these differences across industry has to do with organization of each separate industry. Example accommodation and food services business will be smaller typically than retail trade where you have very large nationwide corporations and the smaller somebody is the more likely they are to have a greater amount of their activity in Maryland.

In the aggregate moving to single sales doesn't appear to have a sizable impact on revenues for the State of Maryland but it does shift the current tax burden around between industries.

Paul Nolan: Since single sales is measuring just sales, its not measuring payroll and property where there is a big shift explicitly that must mean that those who are required to pay more revenue have the benefit from the three factor analysis.

David Roose: If your sales factor is less than the average of your property and payroll, moving to single sales would save you money. For example if your payroll and property - 10% in Maryland of your total and your sales were 5% your apportionment factor would work out to 6 ½ % or so. Moving to single sales would go to 5% would save money. If on the other hand your sales in Maryland are greater than the average payroll and property, 15% of your sales in Maryland, only 3% of your payroll and property obviously your apportionment factor would go from around 4 – 5 % up to 15%.

James Kercheval: I understand our charge to be the fairness issue and how we looking at these charts and saying when we flip that around and how that makes it fair or less fair. In the beginning I brought up the part about a lot of these groups have been charged with looking at revenue neutral, revenue positive, revenue loss type of thing, make some recommendations but try to keep the revenue the same. I am having a hard time understanding how looking at that picture and how these numbers have any reflection of fairness.

David Roose: I will say a large part of the fairness is in the eye of the beholder. When tax changes are considered one of the big questions is who wins and who loses? If you lose then that would be an unfair change on your point of view; if you don't think the current tax structure is fair, that puts a different cast on looking at these. This is part of the data you need to help answer that question.

Steven Banks: With respect to single sales apportionment information we had testimony from both Department of Business and Economic Development and the site consultants that the single sales issue is one we are proud of and looked to show as a market being pro business. It does have the practical impact of being pro job production in the State of Maryland.

Paul Nolan: We are looking at separate reporting right now and these numbers will look at combined reporting in a second. One of the charges of the commission is to look at the two sets of rules; separate versus combined, which one makes more sense. This shows you the current rules and what happens if you make the change we are talking about now. So from your perspective, you can decide what's fair and what is not. If the idea behind fairness is trying to have more contribute to, from those who benefit from doing in the state to make more of a contribution. When you look at that you will reach your conclusion.

Senator Madaleno: Why do you think the finance and insurance turned out the way it did?

David Roose: The finance and insurance is the name of the industry classification under NAICS but insurance companies are exempt from Maryland corporate income tax. So essentially we are just talking about the finance companies. There is a general definition of sales or receipts that broadly applies but finance companies I believe have a separate definition that is based where assets are held by the asset holders; where your customer is. This is one industry that we do have a hand full of companies that are based in Maryland, so if they are going away from their payroll and property they have a headquarters here and a back office operations here, if we're moving away from that to where their sales are then naturally they would realize some savings.

Page 11 –What if we moved to combined reporting and had single sales factor apportionment for everybody? The results are essentially the same as moving to single sales under separate entity reporting. Tax year 2006 on the left side we have single sales apportionment for combined reporting showing what net change under Joyce of $141 million. The table in the middle is the table we had done with the corporate information reporting showing simply a move to combined reporting, maintaining the current apportionment factors, results in a revenue increase under Joyce of $144 billion. The difference between the two is a revenue loss in 2006 of about $3 million. If you take combined reporting as a given we generate about $140 million in revenue in 2006. Whether we have single sales apportionment or double-weighted sales, three factor apportionment does not have much of an effect on the bottom of revenues collected by the state but it does have an impact again, shifts that distribution of the tax burden between various companies.

Page 13 (graph) – Note for 2007 the differences of revenue loss under Joyce is $25 million which is getting to be something noticeable out of the $8 or $9 hundred million corporate income taxes collected.

The graph shows the number of taxpayers under combined reporting pay less tax.

Raymond Wacks: Do you consider these changes significant? They seem relatively insignificant to me.

David Roose: Yes, we are talking about several percentage point difference the number of taxpayers. There are more taxpayers that have an increased liability under single sales with combined reporting than there are with combined reporting, double-weighted sales. There is a pattern here.

Mr. Roose continued explaining each table and taking questions based on those graphs and tables.

Paul Nolan: page 17 – there really seems to be a distributional impact if you look on size from a winner/loser standpoint.

David Roose: page 21 - we were also asked to look at the effect of the graduated income rate under both separate entity reporting and under combined reporting.

Page 32 – we were asked if there were a gross receipts tax for all corporate taxpayers. This could be structured just about any way you wanted it to; we chose a 30% deduction of gross receipts which is modeled after Texas. Texas is based on gross receipts less 30% or less the cost of good sold, or one other payroll adjustment. This is a gross receipts tax with a deduction on 30% gross receipts.

Page 33 – shows the percentage of the aggregate tax burden on corporations under the corporate income tax or under current law and under a flat rate gross receipts tax. For tax year 2007 manufacturing corporations paid about 18% of the total corporate income tax, finance companies paid about 18%, professional services paid a little of 10% of the total corporate income tax burden. If we move to a flat rate gross receipts tax there is a substantial shift in the tax burden to manufacturer's who would now pay over 25% of the tax burden from this business tax. Retail trade goes from under 10% of the tax burden to about 18%; finance, real estate and professional services have a lesser burden.

Raymond Wacks: Why do manufacturers pay such a high percentage, value in what they are producing?

Steven Banks: It's the other way around; it's not just manufacturers its basically ones who get killed under the assumptions are the entities or industries that how low margins.

Paul Nolan: You lose the value of your deductions; you are not measuring net income, you are just measuring gross number.

Karen Syrylo: We think about two different kinds of gross receipts tax:

- Delaware – thought to be a replacement for sales tax. Across the board on every industry charged by every seller of goods or services, gross receipts tax rates can be smaller.
- Second category - meant to be the replacement for the corporate income tax or the corporate franchise tax. Those are the ones who have most recently been adopted by Ohio, Texas and Michigan. One they didn't get the net increase in the tax under the gross receipts that they thought they would get and two the tax has been significantly reapportioned along the industries.

David Roose: Nothing in these reports considers the dynamic effects what incentive effects these changes would have down the road which obviously will be something would also need to be considered as subcommittees are deliberating.

James Kercheval: You would almost like to see Department of Business and Economic Developments staff give a thumbs up or down on the different comparisons as the guys out trying to market businesses into the state.

Raymond Wacks: Well that would be part of the advantages and disadvantages.

James Kercheval: Probably depends on the region you are at as well.

Karen Syrylo: There are also some statewide comparisons that can be made. The fact that none of our competitor's states are doing big gross receipts taxes – Delaware is different because it replaces the sales tax.

Next meeting: Business Incentives in the Tax Code Subcommittee June 3, 2010.

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