Business Tax Reporting Subcommittee Member's Pros and Cons Of Worldwide Unitary Group

Pros	Cons
• Substantiated by the U.S. Supreme Court in Barclay's case	• Politically difficult to implement
• Eliminates the effects of international income shifting among group members	• May place a substantial administrative burden on taxpayers and the Comptroller
	• If mandated, would make Maryland an outlier in comparison to other states

Business Tax Reporting Subcommittee Member's Pros and Cons Of Water's Edge Unitary Group

Pros	Cons
• Most common method among combined reporting states	• May allow for income shifting among international group members
• Less political resistance than worldwide	

Business Tax Reporting Subcommittee Member's Pros and Cons Of Worldwide/Water's Edge Unitary Group Election

Pros	Cons
• All states that require worldwide also offer a water's edge election	• Would lead to less tax collections as taxpayers would likely elect for the option that provided the least liability

Business Tax Reporting Subcommittee Member's Pros and Cons Of Affiliated Group Election

Pros	Cons
• Would likely meet with approval from taxpayers • Would reduce administrative time and expense for taxpayers and the State • May help alleviate the number of litigation suits inherent in defining unitary group	• Would lead to less tax collections as taxpayers would likely elect for the option that provided the least liability

Business Tax Reporting Subcommittee Member's Pros and Cons Of Finnigan Apportionment

Pros	Cons
• Would generate more revenue for the State compared to Joyce	• Could be challenged with respect to its constitutionality

Member Comments on the Timing of the First Effective Tax Year

- Combined reporting is a complicated system to implement which should entail careful planning.
- Adopting combined reporting would require time to educate taxpayers.
- If combined reporting passed in 2011 session and was effective for tax year 2012, would likely require more resources to implement in time than if effective for tax year 2013.
- Should consider the reasons for adopting combined reporting. If combined reporting is adopted because it is a better method to tax corporations, then should allow more time to ensure careful implementation. However, if adopted for additional revenue, then budgetary timing may be more important.
- Regardless of timing, there will be an experiential learning period.

Business Tax Reporting Subcommittee Member's Pros and Cons Of Allowing for Effect of Combined Reporting on Financial Statements

Pros	Cons
• Reduces the one time hit to profitability of publicly traded corporations that would see increased tax liability	• Revenue loss for the State

Generally Accepted Pros and Cons Of Reducing the Corporate Income Tax Rate Concurrent with Combined Reporting

Pros

- Would likely meet with approval from taxpayers
- Similar to what many other states have done
- Would make the State's corporate income tax rate appear more competitive when compared to surrounding states

Cons

- Would reduce the projected revenue impact of combined reporting
- Would have to apply to all corporations, not just those required to file combined reports

Business Tax Reporting Subcommittee Member's Pros and Cons Of Single Sales Apportionment For All

Pros

- Simpler to administer for both corporations and the Comptroller
- Favors corporations that have payroll and property in the State
- May be more competitive with other states
- Keep up with recent trend which shows more states are moving to single sales
- Could be used as a marketing tool to entice corporations into locating in Maryland

Cons

- May discourage companies with small amounts of Maryland sales to locate in Maryland
- May create more income that is not taxed anywhere

Business Tax Reporting Subcommittee Member's Pros and Cons Of Combined Reporting Mandated Electronic Filing

Pros

- Most corporations already file electronically
- Already mandated to electronically file the federal corporate return
- Software providers could provide a product to automate for the corporation
- Provide more data to the Comptroller

Cons

- Would be an additional expense to corporations that do not currently file electronically
- May be additional administrative costs associated with parsing the return data so that it could be used by State auditors

Business Tax Reporting Subcommittee Member's Pros and Cons Of Throwback/Throwout

Pros

- Increases revenue for the State

Cons

- Tax increase on product originators
- May be perceived as unfair
- Not popular if paired with Finnigan
- Maryland's surrounding competitor states do not employ a throwback rule, though West Virginia does require throwout

Generally Accepted Pros and Cons
Of A Gross Receipts Tax

Pros

- May decrease the number of tax planning options available to firms
- Generally easier to administer and comply with
- Should provide a more stable revenue source as receipts are inherently more stable than profits
- Applicable at a lower rate than most taxes because of the broad base
- Some of the contrary arguments to the gross receipts tax may be mitigated by allowing for deductions (COGS or standardized), and/or credits for low/no income firms, and/or separate rates

Cons

- Considered a pyramiding tax – the effective rate will be greater than the nominal tax rate, with the difference dependent on the different stages of production
- The effective rate will vary by economic sector, dependent on the number of production stages
- May encourage firms to purchase input goods from out of state firms that are not subject to the tax, or vertical integration
- Often becomes complex as lawmakers modify the tax to counteract divergent effective rates
- Imposes a significant burden on low margin firms
- Dependent on the configuration, may result in a significant shift of the tax burden
- Lack of public transparency
- Taxes firms that have no income

Generally Accepted Pros and Cons
Of An Alternative Minimum Tax

Pros

- Improves the perceived "fairness" of the corporate income tax
- Helps smooth out revenue collections since every corporation pays some tax each year
- Accelerates tax revenues
- Curtails a business's ability to take advantage of tax breaks by imposing a floor

Cons

- Can increase administrative costs and complexity for business and government
- Essentially increases the tax liability for businesses during recessionary periods and decreases it in boom periods
- May be paid by few businesses and result in little additional revenue
- May not affect all businesses or industries equally
- May alter timing and other decisions related to capital investment
- Curtails a firm's ability to take advantage of tax breaks by imposing a floor
- Arguably, the $300 annual fee for all business entities may already function as a minimum tax

Generally Accepted Pros and Cons Of A Value Added Tax

Pros

- Dependent on implementation and applicable rules, may or may not be transparent
- Considered to encourage saving and investing
- Economically neutral in contrast to income, property, or payroll taxes
- Should provide a more stable revenue source as consumption is inherently more stable than profits

Cons

- Dependent on implementation and applicable rules, may or may not be transparent
- Considered regressive
- May reduce economic activity in the real economy commensurate with increase in saving levels
- Likely place inflationary pressures on wages and prices
- May be complicated to introduce at the State level
- Introduces transactional record keeping at all levels of commerce
- May be easily subject to fraud and abuse

Business Tax Reporting Subcommittee Member's Pros and Cons Of 100% Allocation Of Nonoperational Income

Pros

- Without 100% allocation, some corporate income would not be taxed at the State level

Cons

- Generally related to extraordinary transactions which would be difficult to forecast

Pros and Cons of Options for Improving the Measurement of the Cost of Business Tax Credits

Enact legislation that prioritizes credits, including carryforward credits, so as to provide the sequence in which they may be claimed on the tax return

Pros	Cons
• This is a prerequisite for the accurate measurement of the cost to the State of each individual tax credit	• Depending on the prioritization method, may be perceived as indicating that some credits are more important than others from a policy perspective

Electronically capture existing data fields from Form 500CR during return processing

Pros	Cons
• Would eliminate some or all manual data capture • Would allow for more timely analysis • Could enhance compliance programs	• Would require additional resources, possibly substantial, for the Comptroller • Additional systems changes still needed to determine actual cost (largely due to pass-through entity issues) • Cannot be accomplished until new tax processing system is implemented

Change the 500CR form to gather additional information from taxpayers regarding credit carryforwards

Pros	Cons
• Would increase available data for analysis of actual revenue impact of credits • It is likely that taxpayers already maintain this data in their accounting records	• Would require a re-design of the 500CR from • Would require reconfiguration of certain systems to accommodate the new form • Cannot be accomplished until new tax processing system is implemented

Require mandatory electronic filing in order to claim credits

Pros	Cons
• Would eliminate all manual data capture • Would allow for more timely analysis • With proper design, would eliminate PTE and carryforward issues • May allow for easier connection to credit certifications • May allow for determination of unclaimed credits • Could enhance compliance programs	• Would require resources for the Comptroller to update the existing electronic filing system • May increase burden on taxpayers to require them to provide more information • Cannot be accomplished until new tax processing system is implemented • Costs may outweigh benefits of additional knowledge

Require State agencies to share data with the Comptroller's office related to the certification of credits administered by those agencies

Pros	Cons
• Would allow the Comptroller's office to electronically match up credits claimed with certifications and determine potential outstanding claims • Would assist with compliance	• Would require additional resources for the Comptroller's office and other State agencies • Prior legislation to require the sharing of information did not pass

Any study of the effectiveness of tax credits should be independent and include experts from both within and without State government

Pros	Cons
• Ensures bias does not enter the analysis • Brings fresh perspectives to issues • Expands resources and expertise for developing I-O models, inputting data and analyzing results	• Requires time and input from a variety of sources, resulting in time coordination difficulties • May require additional resources (State, county or private) • Must be cognizant of and protective of disclosure/taxpayer privacy concerns • May send a negative signal to business community that tax credits may be at risk, adding more unpredictability

The study should be undertaken on a regular basis (e.g., every 5 years, at sunset, annually on a rotating basis, etc.)

Pros	Cons
• Provides regular feedback as economic conditions, industry make-up and economic development goals of the State change • Credits can be modified or repealed based on permanent macroeconomic changes	• Economic cycles must be taken into account to avoid repealing or altering a credit due to temporary conditions

Pros and Cons of Including Full "State" Plus "Local" Tax in Resident Individual's "Credit for Taxes Paid to Other States" on Interstate Business Income

Pros

- Arguably removes double tax paid by Maryland residents on non-Maryland business income
- May resolve difficulties currently reported by businesses who cannot attract out-of-state shareholders to move to Maryland to expand local business
- Creates parity between nonresidents (they pay full state-tax-plus-equivalent-local rate) and residents (give credit for full state-tax-plus-local tax)
- May resolve possible U.S. Constitution Commerce Clause issues regarding the taxation of interstate business income
- Arguably eliminates a competitive issue in that Maryland's current piggyback tax with lack of local credit is unusual

Cons

- Under current law, counties would receive less local income tax revenue
- Cost could be shifted to or shared by the State with legislation

Generally Accepted Pros and Cons of Single Sales Apportionment Formula

Pros

- Benefits in-State businesses
- Provides an economic incentive to create or expand capital investment and payroll in Maryland
- Competitive with other states
    - 15 states use single sales factor
    - 9 states have an industry specific single sales factor
    - 1 state (Pennsylvania) uses a 90% weighted sales factor
    - 11 states use double weighted sales three factor
    - 9 states use equal weighted three factor
- Alters the tax burden among companies and industries
- Simplicity – reduce complexity and time of gathering payroll and property data for tax return preparation

Cons

- Alters the tax burden among companies and industries
- A firm's income tax burden may be less commensurate to the services/benefits it receives from state services relative to the *status quo*
- May create an incentive for a limited number of firms with low payroll and property relative to sales to leave the State (nexus)

Pros and Cons of Enhanced Local Authority for Business Real and Personal Property Tax Credits

Pros

- Permits counties to offer incentives specific to the industries targeted for that particular county
- Supports diverse economic development initiatives across the State
- Allows counties greater ability to prioritize property tax incentives within overall county budget
- May increase pressure for similar authority for residential property tax credits

Cons

- May work at cross purposes with State's economic development programs
- May provide another avenue for competition among counties, with potentially harmful budgetary consequences
- May increase pressure for similar authority for residential property tax credits
- In counties with a tax cap, more or larger credits could shift absolute tax burden

Complexity of selecting the specific parameters and maximum credit amounts that should be included in such a statute