MARYLAND BUSINESS TAX REFORM COMMISSION

Raymond S. Wacks, Chairman

Maryland Business Tax Reform Commission
Minutes of Meeting
November 19, 2008

A meeting of the Maryland Business Tax Reform Commission was held in the Lowe House Office Building, Room 170 on Wednesday, November 19, 2008 at 3:30 p.m.

Those present were:

Raymond Wacks, Chairman
Secretary T. Eloise Foster, Department Budget & Management
Linda Tanton, Deputy Comptroller
Secretary David Edgerley, Department of Business and Economic Development
Paul Nolan, McCormick & Company
James Kercheval, County Commissioners, Washington County
Steven J. Banks, T. Rowe Price Group, Inc.
Karen Syrylo, State Tax Consultant, Chamber of Comerce
Jennifer Yang Japp, Public Member
Michael Ettlinger, Public Member

David Roose, Director, Board of Revenue Estimates
Marc Nicole, Department of Budget & Management

Those also present were:

Pam Horton, Representative for Senator Nancy King
Scott Tsikerdanos, Representative for Senator Richard Madaleno
Edward S. Muth, Representative for C. John Sullivan

The meeting was open to the public and members of the local government, state government and other interested parties were in attendance.

The chairman opened the meeting and asked everyone to introduce themselves.

A discussion took place identifying and explaining the charge of the Commission as a result of SB 2, 2007 Special Session. The charge is to review and evaluate the State's current business tax structure and to make specific recommendations for changes to the business tax structure (including rate, base, compliance and elimination of ineffective tax policies intended as development incentives). The Commission's work should include a review and evaluation of the following: combined reporting for the corporate income tax, imposition of other business taxes including gross receipts, value added and alternative minimum taxes; and improved methods for evaluating the effectiveness of tax policies intended as economic development incentives. There were no questions or concerns regarding the charge of the Commission.

Mr. Wacks noted that this is just an organizational meeting, and that the committee will begin its work early next summer depending on how the timetables work. No effective operations could be done prior to or during the General Assembly Session. As a rough timetable the committee would work through the summer of 2009 and into the fall, adjourning just prior to the General Assembly Session in 2010. Work will be completed for the interim report in the summer of 2010.

Mr. Wacks asked that members consider any issues they would like to see covered and any individuals or organizations they thought would be appropriate to hear from, and let staff or him know.

An interim report is due December 15, 2010 and a final report is due December 15, 2011.

The General Assembly called for a report to be made to the Governor on December 15th of this year about corporate information reporting. Considering the facts that the commission has come into being so late this year and the information the Commission is supposed to report on is not due to the Comptroller until December 1st of this year, Mr. Wacks suggested asking the Governor for an extension for this reporting requirement.

Mr. Wacks then turned to David Roose to give a briefing on corporate information reporting. Mr. Roose discussed the following key points regarding combined reporting:

- Senate Bill 2, amended by HB 664 and SB 444, requires corporations to report to the Comptroller information related to combined reporting.
- The Comptroller's Office will issue a report based on this data March 1st .
- For purposes of the corporate income tax, Maryland is a separate entity state which essentially means each affiliate, subsidiary, or other entity of a larger corporate group files its own income tax return.
- Separate reporting allows such creative tax planning techniques as Delaware holding companies, which effectively shifted income out of Maryland.
- Combined reporting treats all related entities of a unitary group or economic entity, as a whole – as the taxpayer. Thus shifting of income from one affiliate to another has no impact on tax liability.
- Combined reporting has been proposed several times but obviously not been adopted by the General Assembly, largely due to lack of knowledge about its impact.

- As required by law, the Comptroller's Office is collecting information from certain corporations that are intended to allow an estimate of what the revenue effect of combined reporting would have been in tax year 2006 had it been in place.
- The commission does have one statutory responsibility to meet by December 15^{th}, which is to review this effort in consultation with the Comptroller and submit recommendations for any changes.

Mr. Wacks indicated that he will have a draft letter for the Governor explaining the reasons for the extension request to be reviewed by the commission members.

Comments were then made by Karen Syrylo regarding the manual process of completing the report online and that this process should be simplified. Mr. Roose stated that the Comptroller's Office would be working with the Maryland Association of CPAs and several corporations towards that end. He added that the Comptroller's Office would consider any suggested changes as to both substance and process regarding these requirements.

The meeting adjourned at 4:34 p.m.