

Maryland Business Tax Reform Commission

Annapolis, Maryland

July 9, 2009

Business Tax Issues

Complexity

- Many different types of tax
- Many different taxing jurisdictions
- Lack of consistency

Certainty and Transparency

- There are many questions which taxpayers seek answers to and have difficulty finding the correct information.
- Taxpayers want to pay the correct amount of tax, but no more.
- Businesses have to balance the needs of many stakeholders.
- Taxpayers obtain guidance through laws, regulations, state interpretations, rulings, hearing decisions, court decisions.
- Guidance is critical to taxpayers to allow them to make correct judgments. It is also beneficial to the state through increased compliance, fewer audit adjustments, and taxpayer "buy-in".
- Virginia is an example of generous published guidance, and gives taxpayers direct access to their tax policy library on the internet.

Combined reporting

- Maryland currently taxes each separate legal entity. Special laws have been developed to account for related party adjustments to avoid arbitrary income shifting schemes.
- Combined reporting is a different taxing method. Groups of entities report their tax information together as if they are one "true" entity, regardless of any legal distinctions.
- Subjective determination of "unitary group" often causes disputes.
- Abundant guidance will be of critical importance to taxpayers if a change is made.



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Recognizing the difficult job of dealing with Maryland's looming deficit, the Maryland Association of CPAs State Tax Committee developed these **10 Criteria for Evaluating Proposed Tax Legislation** with the American Institute of Certified Public Accountants as a framework to evaluate the various tax policies and solutions. It is our hope that these criteria will help add the discipline of a rational, objective framework that will foster in-depth debate and lead to the enactment of "good tax policies" for both the individual and business taxpayers and the State of Maryland.

10 Criteria for Evaluating Proposed Tax Legislation

- 1. Simplicity:** The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.
- 2. Fairness:** Similarly situated taxpayers should be taxed similarly.
- 3. Economic Growth and Efficiency:** The tax system should not impede or reduce the productive capacity of the economy.
- 4. Neutrality:** The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.
- 5. Transparency:** Taxpayers should know that a tax exists and how and when it is imposed upon them and others.
- 6. Minimizing Noncompliance:** A tax should be structured to minimize noncompliance.
- 7. Cost-Effective Collection:** The costs to collect a tax should be kept to a minimum for both the government and taxpayers.
- 8. Impact on Government Revenues:** The tax system should enable the government to determine how much tax revenue will likely be collected and when.
- 9. Certainty:** The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined.
- 10. Payment Convenience:** A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer.