

Maryland Business Tax Reform Commission  
Alternative to Proposed Subcommittees  
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### **Alternative Proposed Subcommittees**

The Commission will divide its work into two distinct areas to address the issues required in the statute that created the Maryland Business tax Reform Commission. One subcommittee will be responsible for investigating and analyzing the pros and cons of business tax reporting regimes in the context of Maryland's economy. The other subcommittee will be responsible for investigating and analyzing the pros and cons of incentives for business in the Maryland tax code.

1. **Business Tax Reporting Subcommittee** – This subcommittee will address the statutory directives of (i) “the imposition of combined reporting using the ‘water’s edge method’ under the corporate income tax for unitary groups of affiliated corporations,” and (ii) the “imposition of other types of business taxes, in lieu of or in addition to the current taxes imposed, including gross receipts taxes, value added taxes, and alternative minimum taxes.” This subcommittee will achieve this by examining the following possible business tax reporting regimes:
  - a. Status Quo – Separate Reporting enhanced by the 2004 law changes to address abuse.
  - b. Combined Reporting
  - c. In particular, the Subcommittee will consider the pros and cons of:
    - A. Whether Combined Reporting reflects a more accurate measure of income than Separate Entity Reporting.
    - B. Whether and to what extent Combined Reporting addresses income shifting that current law Separate Reporting in Maryland has not already addressed?
    - C. The administrative complexities and costs associated with a transition to Combined Reporting.
    - D. The definition(s) of a “Unitary Business” in Maryland if Combined Reporting were to be adopted.
    - E. The composition of taxable income, i.e., Finnegan (whole) vs. Joyce (entity by entity) approach
  - d. Alternatives to Corporate Income Tax - Subcommittee will examine “the imposition of other types of business taxes, in lieu of or in addition to the current taxes imposed, including gross receipts taxes, gross margin, value added taxes and alternative minimum taxes”.

- e. Business Flow Through Taxes – The subcommittee will examine business income taxes generated through flow through entities including S Corporations, LLCs and Partnerships (Flow-Through) which are reported on individual income taxes. Included in their examination are the following topics:
  - A. How much business income is reported on an annual basis and reported as a consequence of Flow Through businesses on Individual Income Tax Returns.
  - B. How much business taxes are paid through Individual Returns and what the average tax rate is.
  - C. How many Individual Returns report more than one flow through business entity?
  - D. A comparative analysis of the relative tax burden for small, mid and large size businesses in Maryland in Corporate and Flow Through Form.
  - E. The calculation of the "credit for taxes paid to other states" results in the Maryland resident owner of a multistate S-corp, LLC etc. paying Maryland's county income tax on income that was generated and taxed in other states (no "credit" is given against the county tax).
  - F. Pros and Cons of unique business taxes to apply to Flow Through entities to avoid abuse.

Public Member *	Senator *	Deputy Comptroller Tanton
Public Member	Senator	Secretary Foster
Business Representative *	Delegate *	Councilman Leszcz
Business Representative	Delegate	

- 2. **Business Incentives in the Tax Code Subcommittee.** This subcommittee will address the statutory directive of considering “improved methods for evaluation of the effectiveness and efficiency of tax policies intended as economic development incentives” including sales tax, tax credits and other tax expenditures. This Subcommittee will consider the pros and cons of business incentives in the Maryland tax code, in particular:
  - a. Apportionment Factors - examine and consider the impact of various apportionment factors, including single sales factor and other alternative apportionment methods.
  - b. Sales Tax – examine the overall sales tax system in the state of MD as compared to other states. Included in the examination will be the following:

- A. Erosion of the sales/use tax base through the growth of internet and mail order sales.
  - B. Sales tax on select services
  - C. Streamlined Sales Tax initiatives
  - D. Special taxes in lieu of or in addition to the sales tax such as special taxes on car and hotel rentals, admission charges for entertainment and cultural events and utility services like telephone and electricity.
- c. Other incentives for business in the currently in the Maryland tax code
  - d. New incentives targeting economic growth and developments

Public Member *	Senator*	Secretary Johansson
Public Member	Senator	Commissioner Kercheval
Business Representative*	Delegate*	Director Sullivan
Business Representative	Delegate	

\*Assumes members will be willing to double up on more than one committee.

**Governance Structure:**

- Each Subcommittee will identify, analyze and document the pros and cons of the aspects of the reporting regimes and business incentives described above without making a specific recommendation. This approach is intended to encourage the production of ideas and materials that will assist the Commission in reaching its recommendations.
- Each Subcommittee will present this analysis for consideration by the full Commission which will determine the recommendations to be made in Commission reports.
- While each Commission member will be assigned to one Subcommittee, all Commission members are welcome to participate in both Subcommittee activities if they choose to devote the time.