

Work to Date Summary Business Tax Reporting Subcommittee

October 22, 2009

- Subcommittee work plan discussed
 - Following broad topics chosen for examination
 - Separate Reporting/Pass through entities (PTEs)
 - Combined Reporting
 - Income Tax Alternatives

November 5, 2009

- Discussion of tax philosophy led by Martin Lobel:
 - Main question to tax philosophy:
 - Mr. Lobel asked: “Do you believe that the function of the tax code is to raise the money needed to keep the government running with the least interference in the economy or do you believe the government should use the tax code to subsidize various special interest groups?”
 - Then pointed out two major problems:
 - Tax code so complicated that nobody understands it
 - Tax subsidies
 - Members discussed difficulties in measuring business activity and relating it to taxation, and the ways in which different entities are taxed
 - Could the tax rate be lowered if tax subsidies and loopholes were eliminated?
 - Transfer pricing and difficulties in assessing what practices are legal/proper
 - Taxation in other states, especially Virginia and its tax structure
 - Characteristics of good tax policy system
- Overview of business tax forms led by Andrew Schaufele of the Bureau of Revenue Estimates
 - Detailed look at forms used by corporations and PTEs
 - Effectiveness and consequences of Delaware holding company addback
 - Apportionment methodology

November 19, 2009

- Discussion of tax law changes and audit complications/issues by Comptroller’s chief auditor, Keith Akers
 - Detailed look at Delaware holding companies (DHCs) and how they have been audited since the legislation and settlements
 - Other DHC type transactions meant to transfer income to lower rate jurisdictions
 - FIN 48 and an increase in voluntary disclosures
 - Lack of audit resources
 - Legality of addback and subsequent court decisions

- Detailed look at Captive REITs and how they are audited
 - Statute only allows for auditors to go back two years in examination of Captive REITs
 - Mainly used by large companies
- Detailed look at Captive Insurance Companies
 - Operates similarly to a DHC though subject to insurance premiums taxation
 - The addback statute includes these type of companies though they are harder to identify

Work to Date Summary

Business Incentives in the Tax Code Subcommittee

October 29, 2009

- Subcommittee work plan discussed
 - Following broad topics chosen for examination
 - Income tax incentives such as modifications, credits, and apportionment
 - Sales tax incentives
 - Misc. taxes such as property and franchise taxes

November 12, 2009

- Presentation on business tax incentives by Secretary Christian Johansson of the Department of Business and Economic Development (DBED)
 - Role of incentives in economic development and related philosophies
 - Types of incentives and motivation behind them (job creation, revitalization, industry focused, or capital investment)
 - Role incentives play in the site selection process and competition among states
 - Due to the recession, have less discretionary dollars, so stronger reliance on credits lately
 - Success stories related to various incentives
- Detailed presentation on the various credits available by Mark Vulcan of DBED
 - Presented a binder, to all committee attendees, detailing credits and programs currently available
 - Issues related to measuring success of credits and administration
 - Industries Maryland wants to attract (Feds, Meds, Eds, and Beds)
- Detailed discussion of tax credits that DBED does not administer and their relevant fiscal impact by Matthew Caminiti of the Bureau of Revenue Estimates

December 3, 2009

- Presentation by panel of local economic development leaders including:
 - David Iannucci, Director – Baltimore County Office of Economic Development
 - Vernon Thompson, Director – Cecil County Economic Development
 - Matt Diaz, Director – Allegany County Office of Economic Development
 - Don Fry, President – Greater Baltimore Committee
 - Kim Clark, Executive Vice President – Baltimore Development Corporation
 - Role incentives have played in local economic development
 - Competitiveness among states and counties, though in recent years county competitiveness has evolved into teamwork
 - Local collaboration with DBED
 - Success stories

- Presentation by panel which included a site consultant and two business representatives
 - Jay Biggins, Executive Managing Director – Biggins, Lacy, Sharpiro & Company
 - Role incentives play in site selection
 - Econometric models, which include the various attributes of a site, are used to narrow possible sites to a short list
 - Many factors play a role in the actual selection process, credits are often at the margin of the decision
 - Maryland is very strong to those considering a knowledge dependent businesses, though our incentives are weaker than those of other states
 - Discussion of which level within the “pyramid” where Maryland typically gets rejected in site selection
 - Bryan K. Buckland, Vice President Finance and Contracts – ATK
 - Incentives helped induce his company to remain and expand in Maryland
 - Dr. David Block, Chairman and CEO - Gliknik
 - Various incentives helped his company get off the ground and find the financing they were looking for