gbc POSITION STATEMENT

TESTIMONY PRESENTED TO THE SENATE BUDGET AND TAXATION COMMITTEE

SENATE BILL 24 -- SMALL BUSINESS FAIRNESS ACT

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GREATER BALTIMORE COMMITTEE

Position: Oppose

The Greater Baltimore Committee (GBC) opposes Senate Bill 24, which requires retail trade and food services corporations to compute Maryland taxable income using combined reporting. At issue is competitiveness, which has long been at the forefront of debate and discussion with regard to Maryland's business climate. While Maryland has numerous competitive strengths, including a highly-skilled workforce, excellent access to health care, top-ranked universities and a good quality of life, in many annual reviews Maryland consistently ranks near the bottom on a number of key business metrics. Additionally, when compared to neighboring states, Maryland's tax structure as it relates to business growth and job creation is often viewed unfavorably.

Combined reporting has been considered and defeated for many years. In 2010, the Maryland Business Tax Reform Commission (MBTRC) evaluated the effects of implementing combined reporting. The MBTRC recommended that the Maryland General Assembly reject this policy for a number of reasons, including that many of the tax avoidance measures that combined reporting is intended to prevent had already been addressed in previous policies enacted by the legislature. In 2014 while opposing a similar bill that would have required combined reporting, the Council on State Taxation wrote that combined reporting reduces jobs, increases the administrative burden on businesses and would have an "unpredictable and uncertain effect on Maryland's revenue."

In 2015, the Maryland Economic Development and Business Climate Commission, also known as the Augustine Commission, issued a report recommending that combined reporting not be adopted in Maryland and emphasized that this intent should be clearly communicated. The report said combined reporting "…can create revenue volatility and winners and losers among corporate taxpayers." It further added, "Combined reporting can also lead to additional litigation from taxpayers and create additional administrative costs for both taxpayers and the state."

Aside from creating additional difficulties on businesses, combined reporting would also adversely affect Maryland's competitiveness as many states do not require this method of computing taxable income. In the Mid-Atlantic region, very few states require the combined reporting method.

If Maryland strives to be competitive in the 21st century economy, policies must reflect an understanding of the challenges faced by our State's businesses and a willingness of government to partner with the business community. Senate Bill 24 would put additional administrative burdens on businesses, which is not reflective of a state that strives to be competitive and welcoming to business growth and job creation.

Furthermore, one of the criticisms of combined reporting is complexity on Maryland companies. In Senate Bill 24, only select industries are required to use the combined reporting method. This would make Maryland's tax structure unnecessarily complicated.

This bill is inconsistent with two of the key tenets in *Gaining the Competitive Edge: Keys to Economic Growth and Job Creation in Maryland,* a report published by the GBC that identifies eight core pillars for a competitive business environment and job growth:

> **Competitive costs of doing business.** Public policies must reflect a government predisposition to nurture business growth and to avoid arbitrarily or disproportionately imposing additional overhead upon the business sector.
>
> **Tax structure that is fair and competitive.** Maryland's tax policy must be perceived by business as being competitive and devoid of elements that unreasonably target specific businesses or business sectors.

Finally, the Greater Baltimore Committee's 2020 Legislative Priorities state that a key priority is building a competitive, predictable and fair tax system. The 2020 Legislative Priorities specifically cites this proposed legislation, stating that the Maryland legislators should "Oppose the passage of destabilizing business taxation proposals that would create uncertainty, negatively affect the corporate tax structure or diminish the economic vitality of our State."

For these reasons, the Greater Baltimore Committee urges an unfavorable report on Senate Bill 24.

The Greater Baltimore Committee (GBC) is a non-partisan, independent, regional business advocacy organization comprised of hundreds of businesses -- large, medium and small -- educational institutions, nonprofit organizations and foundations located in Anne Arundel, Baltimore, Carroll, Harford, and Howard counties as well as Baltimore City. The GBC is a 65-year-old, private-sector membership organization with a rich legacy of working with government to find solutions to problems that negatively affect our competitiveness and viability.

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