

SENATE BILL 227

Q3

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CF 8lr2346

By: **Senators Young, Benson, Currie, Manno, Muse, Nathan–Pulliam, Oaks, Ramirez, Robinson, Rosapepe, and Smith**

Introduced and read first time: January 19, 2018

Assigned to: Budget and Taxation

A BILL ENTITLED

1 AN ACT concerning

2 **Small Business Fairness Act of 2018**

3 FOR the purpose of requiring certain retail trade and food services corporations to compute
4 Maryland taxable income using a certain method; authorizing certain retail trade
5 and food services corporations, subject to regulations adopted by the Comptroller, to
6 determine certain income using a certain method; requiring, subject to regulations
7 adopted by the Comptroller, certain groups of retail trade and food services
8 corporations to file a combined income tax return reflecting the aggregate income tax
9 liability of all the members of the group; requiring the Comptroller to adopt certain
10 regulations; requiring certain regulations to be consistent with certain regulations
11 adopted by the Multistate Tax Commission; requiring the Comptroller to report to
12 the General Assembly on or before a certain date each year; defining certain terms;
13 providing for the application of this Act; and generally relating to the Maryland
14 corporate income tax.

15 BY adding to
16 Article – Tax – General
17 Section 10–402.1 and 10–402.2
18 Annotated Code of Maryland
19 (2016 Replacement Volume and 2017 Supplement)

20 BY repealing and reenacting, with amendments,
21 Article – Tax – General
22 Section 10–811
23 Annotated Code of Maryland
24 (2016 Replacement Volume and 2017 Supplement)

25 Preamble

26 WHEREAS, Small businesses are the primary employers in Maryland's economy,

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



accounting for 97.5% of all employers and 51.6% of the private-sector labor force, according to the Office of Advocacy within the federal Small Business Administration; and

WHEREAS, Under current law, large multistate corporations are permitted to transfer their Maryland profits back to their home state and avoid paying Maryland taxes – taxes that Maryland’s small business owners are required to pay; and

WHEREAS, As noted by the Department of Legislative Services in a 2015 presentation to the Maryland Economic Development and Business Climate Commission, this taxation method creates a “competitive disadvantage for local businesses, which are unable to use cross-border tax planning techniques to avoid the tax”; and

WHEREAS, Maryland “cannot reasonably ask individual taxpayers and small businesses to pay higher personal income and sales tax while allowing large corporations to escape paying their fair share”, as stated by the Center for Budget and Policy Priorities; and

WHEREAS, At least 25 states and the District of Columbia have a corporate income tax method that requires the income of all members of a multistate corporation to be included in the computation of the state’s income tax; and

WHEREAS, According to the Department of Legislative Services, if this method was applied to multistate retail trade and food service corporations operating in Maryland, it would generate approximately \$50 million each year in new revenue for the State and beneficially impact or have no impact on 60% of Maryland businesses; and

WHEREAS, According to a 2016 study commissioned by the Maryland Association of Community Colleges, for every \$1 the State invests in community colleges, the State cumulatively receives \$3.70; and

WHEREAS, This 370% return on investment is due to increased earnings and taxes from students, who see an income increase of \$2.60 for each \$1 invested in their education, and from a reduction in public expenditures on health care, public safety, social services, and unemployment; and

WHEREAS, A 2006 study by the Washington State Workforce Training and Education Coordinating Board found that for each \$1 spent on training, \$7 was generated in federal, state, and payroll taxes; and

WHEREAS, Creating a fair corporate tax environment expands Maryland’s economic base, raises prosperity across the State, provides additional revenue to strengthen the State’s budget solvency, and allows for the reinvestment into our current and future workers through tuition assistance for vocational training, apprenticeships, and associate degrees; now, therefore,

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
That the Laws of Maryland read as follows:

Article – Tax – General

10-402.1.

(A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS INDICATED.

(2) “COMBINED GROUP” MEANS:

(I) ALL MEMBERS OF A UNITARY GROUP THAT ARE SUBJECT TO THE INCOME TAX OR WOULD BE SUBJECT TO THE INCOME TAX IF DOING BUSINESS IN THE STATE; AND

(II) OTHER MEMBERS OF THE UNITARY GROUP NOT DESCRIBED IN ITEM (I) OF THIS PARAGRAPH UNDER THE CIRCUMSTANCES AND TO THE EXTENT PROVIDED IN REGULATIONS ADOPTED BY THE COMPTROLLER TO PREVENT THE AVOIDANCE OF TAX OR TO REFLECT CLEARLY THE INCOME OF ANY MEMBER OF THE COMBINED GROUP FOR ANY PERIOD.

(3) “UNITARY GROUP” MEANS AN AFFILIATED GROUP OF CORPORATIONS:

(I) THAT IS ENGAGED IN A UNITARY BUSINESS; AND

(II) OF WHICH MORE THAN 50% OF THE VOTING STOCK OF EACH MEMBER IS DIRECTLY OR INDIRECTLY OWNED BY:

1. A COMMON OWNER OR COMMON OWNERS, EITHER CORPORATE OR NONCORPORATE; OR

2. ONE OR MORE MEMBER CORPORATIONS OF THE GROUP.

(B) THIS SECTION APPLIES ONLY TO A DOMESTIC OR FOREIGN CORPORATION THAT:

(1) IS PRIMARILY ENGAGED IN ACTIVITIES THAT, IN ACCORDANCE WITH THE NORTH AMERICAN INDUSTRIAL CLASSIFICATION SYSTEM (NAICS), UNITED STATES MANUAL, UNITED STATES OFFICE OF MANAGEMENT AND BUDGET, 2017 EDITION, WOULD BE INCLUDED IN SECTOR 44, 45, OR 722; AND

(2) MAINTAINS MULTIPLE LOCATIONS OF BUSINESS, WHETHER IN THIS STATE OR ANOTHER STATE.

(C) WHETHER OR NOT THE COMBINED GROUP FILES A COMBINED INCOME TAX RETURN UNDER § 10-811 OF THIS TITLE, A MEMBER OF A COMBINED GROUP SHALL COMPUTE ITS MARYLAND TAXABLE INCOME USING THE COMBINED REPORTING METHOD UNDER THIS SECTION.

(D) UNDER THE COMBINED REPORTING METHOD, IF A CORPORATION IS A MEMBER OF A UNITARY GROUP AND IS SUBJECT TO THE MARYLAND INCOME TAX, THE PART OF THE CORPORATION'S MARYLAND MODIFIED INCOME THAT IS DERIVED FROM OR REASONABLY ATTRIBUTABLE TO TRADE OR BUSINESS CARRIED ON IN THE STATE SHALL BE DETERMINED AS FOLLOWS:

(1) DETERMINE THE MARYLAND MODIFIED INCOME OF THE COMBINED GROUP BY COMBINING THE CORPORATION'S INCOME WITH THE INCOME OF OTHER MEMBERS OF THE COMBINED GROUP, DISREGARDING TRANSACTIONS BETWEEN MEMBERS OF THE COMBINED GROUP TO REFLECT CLEARLY THE INCOME OF THE COMBINED GROUP;

(2) DETERMINE THE PART OF THE COMBINED GROUP'S MARYLAND MODIFIED INCOME THAT IS DERIVED FROM OR REASONABLY ATTRIBUTABLE TO TRADE OR BUSINESS CARRIED ON IN THE STATE USING A MARYLAND APPORTIONMENT FRACTION OF THE COMBINED GROUP BASED ON NUMERATORS AND DENOMINATORS OF THE PROPERTY, PAYROLL, AND SALES FACTORS UNDER § 10-402 OF THIS SUBTITLE COMPUTED BY COMBINING THOSE AMOUNTS ASSOCIATED WITH THE ACTIVITIES OF THE CORPORATION WITH THOSE AMOUNTS ASSOCIATED WITH THE ACTIVITIES OF OTHER MEMBERS OF THE COMBINED GROUP, DISREGARDING TRANSACTIONS BETWEEN MEMBERS OF THE COMBINED GROUP TO REFLECT CLEARLY THE INCOME ALLOCABLE TO MARYLAND; AND

(3) FOR EACH MEMBER OF THE COMBINED GROUP THAT IS SUBJECT TO THE MARYLAND INCOME TAX, ALLOCATE A PORTION OF THE AMOUNT DETERMINED UNDER ITEM (2) OF THIS SUBSECTION TO THAT CORPORATION BY MULTIPLYING THE AMOUNT DETERMINED UNDER ITEM (2) OF THIS SUBSECTION BY A FRACTION:

(I) THE NUMERATOR OF WHICH IS THE MARYLAND APPORTIONMENT FRACTION OF THAT CORPORATION, DETERMINED BY USING THAT CORPORATION'S MARYLAND FACTORS IN THE NUMERATORS OF THE APPORTIONMENT FORMULA AND USING THE COMBINED FACTORS OF ALL MEMBERS OF THE COMBINED GROUP IN THE DENOMINATORS OF THE APPORTIONMENT FORMULA; AND

(II) THE DENOMINATOR OF WHICH IS THE SUM OF THE MARYLAND APPORTIONMENT FRACTIONS OF THE MEMBERS OF THE COMBINED

1 GROUP THAT ARE SUBJECT TO THE MARYLAND INCOME TAX.

2 (E) (1) SUBJECT TO REGULATIONS ADOPTED BY THE COMPTROLLER, A
3 CORPORATION THAT IS PART OF A COMBINED GROUP MAY ELECT TO DETERMINE ITS
4 INCOME DERIVED FROM OR ATTRIBUTABLE TO TRADE OR BUSINESS IN THE STATE
5 USING THE WATER'S EDGE METHOD AS DESCRIBED IN THIS SUBSECTION.

6 (2) UNDER THE WATER'S EDGE METHOD, THE COMBINED GROUP FOR
7 PURPOSES OF THE COMBINED REPORTING METHOD REQUIRED UNDER THIS
8 SECTION SHALL INCLUDE ONLY THE FOLLOWING AFFILIATED ENTITIES:

9 (I) CORPORATIONS THAT ARE INCORPORATED IN THE UNITED
10 STATES, EXCLUDING CORPORATIONS MAKING AN ELECTION UNDER §§ 931
11 THROUGH 936 OF THE INTERNAL REVENUE CODE;

12 (II) DOMESTIC INTERNATIONAL SALES CORPORATIONS, AS
13 DESCRIBED IN §§ 991 THROUGH 994 OF THE INTERNAL REVENUE CODE, AND
14 FOREIGN SALES CORPORATIONS, AS DESCRIBED IN §§ 921 THROUGH 927 OF THE
15 INTERNAL REVENUE CODE;

16 (III) ANY CORPORATION OTHER THAN A BANK, REGARDLESS OF
17 THE PLACE WHERE IT IS INCORPORATED, IF THE AVERAGE OF THE CORPORATION'S
18 PROPERTY, PAYROLL, AND SALES FACTORS WITHIN THE UNITED STATES IS 20% OR
19 MORE;

20 (IV) EXPORT TRADE CORPORATIONS, AS DESCRIBED IN §§ 970
21 THROUGH 972 OF THE INTERNAL REVENUE CODE;

22 (V) A FOREIGN CORPORATION DERIVING GAIN OR LOSS FROM
23 DISPOSITION OF AN INTEREST IN REAL PROPERTY IN THE UNITED STATES TO THE
24 EXTENT RECOGNIZED UNDER § 897 OF THE INTERNAL REVENUE CODE; AND

25 (VI) UNDER THE CIRCUMSTANCES AND TO THE EXTENT
26 PROVIDED BY REGULATIONS THAT THE COMPTROLLER ADOPTS:

27 1. A CORPORATION NOT DESCRIBED IN ITEMS (I)
28 THROUGH (V) OF THIS PARAGRAPH TO THE EXTENT OF ITS INCOME DERIVED FROM
29 OR ATTRIBUTABLE TO SOURCES WITHIN THE UNITED STATES AND ITS FACTORS
30 ASSIGNABLE TO A LOCATION WITHIN THE UNITED STATES; OR

31 2. AN AFFILIATED CORPORATION THAT IS A
32 CONTROLLED FOREIGN CORPORATION, AS DEFINED IN § 957 OF THE INTERNAL
33 REVENUE CODE.

1 **(3) THE USE OF THE WATER’S EDGE METHOD IS SUBJECT TO THE**
2 **TERMS AND CONDITIONS THAT THE COMPTROLLER REQUIRES BY REGULATION,**
3 **INCLUDING ANY CONDITIONS THAT ARE NECESSARY OR APPROPRIATE TO PREVENT**
4 **THE AVOIDANCE OF TAX OR TO REFLECT CLEARLY THE INCOME FOR ANY PERIOD.**

5 **(F) (1) THE COMPTROLLER SHALL ADOPT REGULATIONS THAT ARE**
6 **NECESSARY AND APPROPRIATE TO CARRY OUT THIS SECTION.**

7 **(2) THE REGULATIONS ADOPTED BY THE COMPTROLLER SHALL BE**
8 **CONSISTENT WITH THE “PRINCIPLES FOR DETERMINING THE EXISTENCE OF A**
9 **UNITARY BUSINESS” (REG. IV.1.(B)) ADOPTED BY THE MULTISTATE TAX**
10 **COMMISSION.**

11 **10-402.2.**

12 **ON OR BEFORE MARCH 31 EACH CALENDAR YEAR, THE COMPTROLLER SHALL**
13 **REPORT TO THE GENERAL ASSEMBLY, IN ACCORDANCE WITH § 2-1246 OF THE**
14 **STATE GOVERNMENT ARTICLE, AN ESTIMATE OF THE TOTAL ADDITIONAL TAX**
15 **REVENUE, IF ANY, THAT WILL BE COLLECTED FOR THE FISCAL YEAR THAT BEGINS**
16 **JULY 1 OF THAT CALENDAR YEAR AS A RESULT OF THE REQUIREMENT UNDER**
17 **§ 10-402.1 OF THIS SUBTITLE THAT MEMBERS OF CERTAIN COMBINED GROUPS**
18 **COMPUTE MARYLAND TAXABLE INCOME USING THE COMBINED REPORTING**
19 **METHOD.**

20 **10-811.**

21 **(A) [Each member of] EXCEPT AS PROVIDED BY AND SUBJECT TO**
22 **REGULATIONS ADOPTED BY THE COMPTROLLER, an affiliated group of corporations**
23 **[shall file a separate income tax return] ENGAGED IN A UNITARY BUSINESS SHALL FILE**
24 **A COMBINED INCOME TAX RETURN REFLECTING THE AGGREGATE INCOME TAX**
25 **LIABILITY OF ALL THE MEMBERS OF THE AFFILIATED GROUP THAT ARE ENGAGED IN**
26 **A UNITARY BUSINESS.**

27 **(B) THE COMPTROLLER SHALL ADOPT REGULATIONS THAT ARE**
28 **NECESSARY AND APPROPRIATE TO CARRY OUT THIS SECTION.**

29 **SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July**
30 **1, 2018, and shall be applicable to all taxable years beginning after December 31, 2018.**