SB 691

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 691 (Senator Pinsky, *et al.*)
Budget and Taxation

Income Tax - Corporations - Denial of Deduction for Excessive Compensation of Officers and Directors

This bill requires a corporation to increase its Maryland modified income by the amount that the compensation of a corporate officer or director exceeds 20 times the compensation of the lowest paid full-time employee.

This bill is effective July 1, 1997, and applies to all tax years beginning after December 31, 1996.

Fiscal Summary

State Effect: Indeterminate increase in general and special fund revenues. Expenditures will not be affected.

Local Effect: Indeterminate revenue increase. Expenditures would not be affected.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

State Revenues: Any increase in State revenues cannot be reliably estimated at this time. Adequate data on the compensation of corporate officers and employees are not readily available.

For illustrative purposes, however, if a Maryland corporation has a CEO earning a salary of $1 million, and the lowest paid full-time employee earns the minimum wage ($10,700 in 1998), the corporation would have to increase its Maryland modified income by $786,000 in

1998. Corporate income tax revenues would therefore increase by $55,020.

The actual increase in State revenues, if any, would depend upon: (1) the compensation disparities within corporations that pay Maryland income tax; (2) the number of corporate officers and directors receiving "excessive" compensation; (3) how much of the corporation's taxable income is apportioned to Maryland; and (4) any steps corporations might take to avoid this addition modification.

Local Revenues: About 7.5% of corporate income tax revenues are distributed to local governments through the Transportation Trust Fund. Any increase in corporate income tax revenues would therefore result in an increase in local transportation revenues.

Small Business Effect: The above example holds for corporations which are small businesses. Corporate income tax liability for some corporations that are small businesses could increase substantially. This bill, however, only applies to those small businesses which are corporations, potentially placing a heavier tax burden on small corporations relative to other types of small businesses.

Information Source(s): Office of the Comptroller (Revenue Administration Division), Department of Fiscal Services

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