SB 879

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 879 (Senator Pinsky)
Budget and Taxation

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

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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.

The bill takes effect July 1, 2002, and applies to all taxable years beginning after December 31, 2001.

Fiscal Summary

State Effect: Potential significant increase in general fund and Transportation Trust Fund revenues. No effect on expenditures.

Local Effect: Potential increase in local government revenues.

Small Business Effect: Potential meaningful.

Analysis

Current Law: There is no addition modification of this type under the Maryland income tax.

Maryland modified income is federal taxable income after the application of State addition and subtraction modifications.

State Fiscal Effect: 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 an executive earning a salary of $500,000, and the lowest paid full-time employee earns the minimum wage, or approximately $10,300 per year ($5.15 per hour, 40 hours per week, 50 weeks per year), the corporation would have to increase its Maryland modified income by $294,000 ($500,000 less $10,300 x 20) in 2002. Corporate income tax revenues would therefore increase by $20,580, of which $15,435 would be distributed to the general fund and $5,145 would be distributed to the Transportation Trust Fund.

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 Fiscal Effect: Approximately 30% of the corporate income tax revenues that are distributed to the Transportation Trust Fund are distributed to local governments through the Gasoline and Motor Vehicle Revenue Account (GMVRA). 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 that 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 that are corporations, potentially placing a heavier tax burden on small corporations relative to other types of small businesses.

Additional Information

Prior Introductions: This bill was introduced as SB 691 in the 1997 session and as SB 561 in the 1995 session. Both received unfavorable reports from the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Comptroller's Office (Estate Tax Division), Department of Legislative Services

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