

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1065
 Ways and Means

(Delegates Cardin and Hixson)

Budget and Taxation

Corporate Income Tax - Single Sales Factor Apportionment - Reporting

This bill extends reporting requirements that are in effect for tax year 2001 and 2002 for manufacturers that have over 25 employees and elect to use a single sales factor apportionment method. The bill also adds that these manufacturers are required to report State and worldwide payroll. The Comptroller must continue to report specified information on the single sales factor apportionment to the Governor and the General Assembly by October 1 of 2006, 2007, and 2008. If a manufacturing corporation fails to provide the required information, the Comptroller may assess a penalty that does not exceed the greater of \$250 or 10% of the tax required to be shown on the return for the tax year.

The bill takes effect July 1, 2005 and applies to tax year 2004, 2005, and 2006.

Fiscal Summary

State Effect: Potential minimal increase in general fund and Transportation Trust Fund (TTF) revenues in FY 2006 through 2009 due to the bill's penalty provisions. Special fund expenditures would increase by approximately \$34,000 in FY 2006 due to one-time computer expenses at the Comptroller's Office.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF/SF Rev.	-	-	-	-	\$0
SF Expenditure	34,000	0	0	0	0
Net Effect	(\$34,000)	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: As a part of its income tax return for 2001 and 2002, a manufacturing corporation that has over 25 employees and elects to use the single sales factor apportionment method is required to submit a report that describes in the tax year: (1) the difference in tax owed as a result of using a single sales factor apportionment method as compared to the tax that would have been owed using the 3-factor double weighted sales factor apportionment method in effect in tax years prior to tax year 2001; and (2) book value of plant, land, and equipment; taxable income; and volume of sales in the State and worldwide.

The Comptroller is required to report annually to the General Assembly and the Governor by October 1: (1) the number of corporations filing in the prior year that used the single sales factor apportionment; (2) the number of corporations paying less in Maryland income tax as a result of using single sales factor apportionment and the aggregate amount of Maryland tax savings for these corporations; and (3) the number of corporations paying more in Maryland income tax as a result of using single sales factor apportionment and the aggregate amount of additional Maryland income taxes paid by these corporations.

Background: Chapter 633 of 2001 altered Maryland's corporate income tax law so that a manufacturer's income tax is based solely on its percentage of in-State sales beginning with tax year 2001. Prior to tax year 2001 a manufacturer was required to use the 3-factor double weighted sales factor apportionment method. Chapter 633 also required that the Comptroller's Office and manufacturers who elected to use the single sales factor apportionment method report specified information as described above.

State Fiscal Effect: General fund and TTF revenues could increase minimally in fiscal 2006 through 2009 due to the bill's penalty provisions. Corporations would have until March 15, 2009 before exhausting all extensions for tax year 2006. The Comptroller's Office reports that the information that was captured in tax year 2001 and 2002 is no longer captured, and it would incur a one-time expenditure increase of \$34,000 in fiscal 2006 to capture the information in tax years specified by the bill. This includes data processing changes to the SMART income tax return and processing systems, and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2005
mam/hlb Revised - House Third Reader - March 25, 2005

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510