

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1242 (Delegate King, *et al.*)
 Economic Matters

Business Entities - Annual Report - Fees

This bill reduces the fee paid by specified business entities that are required to file an annual report with the State Department of Assessments and Taxation (SDAT) from \$300 to \$100.

Fiscal Summary

State Effect: State general fund revenues could decrease by approximately \$35.7 million in FY 2007 and by \$39.7 million annually beginning in FY 2008. No effect on expenditures.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$35.7)	(\$39.7)	\$39.7	(\$39.7)	(\$39.7)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$35.7)	(\$39.7)	\$39.7	(\$39.7)	(\$39.7)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Exhibit 1 shows the filing fee for entities that are required to file an annual report with SDAT:

Exhibit 1
Annual Filing Fees for Annual Reports Filed with SDAT

<u>Type of Business Entity</u>	<u>Filing Fee</u>
Maryland corporation, except a charitable or benevolent institution, nonstock corporation, savings and loan corporation, credit union, and banking institution	\$300
Foreign corporation subject to the jurisdiction of this State, except a national banking association, savings and loan association, credit union, nonstock corporation, and charitable and benevolent institution	\$300
Maryland savings and loan association, banking institution, or credit union or a foreign savings and loan association, national banking association, or credit union that is subject to the jurisdiction of this State	\$300
Maryland limited liability company (LLC), limited liability partnership (LLP), limited partnership (LP), or a foreign limited liability company, foreign limited liability partnership, or foreign limited partnership	\$300
Business trust	\$300
Real estate investment trust (REIT) doing business in this State	\$300

Background: The Budget Reconciliation and Financing Act of 2003 (Chapter 203) raised the fees that business entities are required to pay with their annual reports filed with SDAT. For Maryland and foreign corporations and specified financial institutions, the fee increased from \$100 to \$300. For a REIT the annual filing fee increases from \$25 to \$300. Chapter 203 also imposed a \$300 fee for the annual filing of a Maryland or foreign LLC, LLP, or LP.

It was estimated that there were approximately 127,800 Maryland corporations, 28,100 foreign corporations, 200 Maryland financial institutions, 200 foreign financial institutions, and 250 REITs that would have their filing fees increased as a result of the legislation. In addition, prior to the legislation, there were approximately 79,000

noncorporate business entities (LLCs, LLPs, and LPs) that did not pay a fee with their annual filings. It was estimated that general fund revenues would increase by approximately \$55 million annually beginning in fiscal 2004 from fees for annual filings with SDAT.

The Budget Reconciliation and Financing Act of 2004 (Chapter 430) also altered and imposed new fees for filing annual reports with SDAT by: (1) repealing the exemption for insurance companies that pay an annual filing fee of \$25 to the Insurance Commissioner from the requirement to file an annual report of a foreign corporation – the estimated 540 such foreign insurance companies were required to pay the same fee as other foreign corporations, \$300; and (2) requiring a \$300 filing fee to be paid with the 159 annual reports of business trusts.

State Fiscal Effect: Exhibit 2 shows the number of each type of entity that filed an annual report with SDAT in fiscal 2004 and 2005.

Exhibit 2
Annual Reports Filed with SDAT by Entity Type
Fiscal 2004 and 2005

<u>Entity Type</u>	<u>FY 2004</u>	<u>FY 2005</u>
Maryland LLC	53,817	58,682
Foreign LLC	5,475	6,196
Domestic LP	6,960	6,568
Foreign LP	1,236	1,233
Domestic LLP	1,294	1,279
Foreign LLP	82	86
Business Trust	142	196
REIT	252	290
Domestic Financial	42	40
Foreign Financial	79	72
Domestic Corporation	104,952	98,466
Foreign Corporation	24,412	25,102
Total	198,743	198,210
Average	198,477	

Source: State Department of Assessments and Taxation

Annual reports are required to be filed by April 15 of each year. Using the average number of reports filed in fiscal 2004 and 2005, State general fund revenues could decrease by approximately \$39.7 million annually beginning in fiscal 2008 as shown in **Exhibit 3**. Revenues could decrease by approximately \$35.7 million in fiscal 2007, which reflects 90% of the estimated annual loss, due to late payments.

Exhibit 3
Estimated Annual General Fund Revenue Decrease Resulting from Reducing Specified Filing Fees from \$300 to \$100

	<u>Annualized Amount</u>
Current fee of \$300	\$59,542,950
Proposed fee of \$100	\$19,847,650
GF Revenue Decrease	(\$39,695,300)

Additional Information

Prior Introductions: None.

Cross File: SB 151 (Senator Klausmeier, *et al.*) – Judicial Proceedings.

Information Source(s): State Department of Assessments and Taxation, Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2006
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