

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1704
Ways and Means

(Delegate Hixson)

Income Tax - Voluntary Compliance Program for Abusive Tax Avoidance
Transactions

This bill requires the Comptroller to establish a tax amnesty program from June 1, 2006, through October 1, 2006, for the payment of Maryland State and local income tax liabilities related to the use of abusive tax avoidance transactions. The program does not apply to income tax assessments related to the use of Delaware Holding Companies.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: Significant increase in State revenues in FY 2007 due to additional income tax revenues collected under the amnesty period. General fund expenditures would increase by approximately \$100,000 at the Comptroller's Office due to implementation costs.

Local Effect: Local government revenues would increase from increased local income tax revenue collections and additional local highway user revenues distributed from the Transportation Trust Fund.

Small Business Effect: None.

Analysis

Current Law: The State has operated three other tax amnesty programs as discussed below.

Background: The State offered a tax amnesty period in September and October 1987 for income taxes, withholding taxes, sales and use taxes, admissions and amusement taxes, and boat excise taxes. A total of \$36.6 million was collected, with \$20 million distributed to the general fund. Chapter 275 of 2001 established another tax amnesty period from September 1, 2001 through October 31, 2001 for the nonpayment, nonreporting, or underreporting of income taxes, withholding taxes, sales and use taxes, and admissions and amusement taxes. A total of \$39.3 million was collected, with \$28.5 million distributed to the general fund.

Chapter 556 of 2004 restricts the ability of corporations to use Delaware Holding Companies to shift income away from the State for tax purposes. Chapter 556 requires an addition modification under the Maryland corporate income tax for the amount of specified payments made to a related party that are deducted for federal income tax purposes. In addition, Chapter 557 of 2004 created a statutory settlement period for the Comptroller to settle Delaware Holding Company-related litigation. The settlement period netted approximately \$199 million in one-time revenues, \$151 million for the general fund, and \$48 million for the Transportation Trust Fund.

State Revenues: State revenue could increase significantly in fiscal 2007 due to additional income tax revenues collected under the amnesty period. The amount of the increase depends on the number of businesses with specified abusive tax avoidance transactions that take advantage of the amnesty and cannot be reliably predicted at the time.

State Expenditures: The Comptroller's Office reports that it would incur additional costs of \$100,000 in fiscal 2007 in order to publicize and administer the amnesty program.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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