

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 636 (Delegate Pendergrass, *et al.*)
 Economic Matters

Business Entities - Annual Report - Fee

This bill bases the filing fees for annual reports filed by Maryland business entities with the State Department of Assessments and Taxation (SDAT) on employment levels. For entities with 0-20 employees, the fee would be \$100. For entities with 21-49 employees, the fee is \$200. For entities with 50 or more employees, the fee remains \$300. The bill applies to a Maryland corporation, savings and loan association, banking institution, credit union, limited liability company (LLC), limited liability partnership (LLP), or limited partnership (LP).

The bill applies to annual reports filed after December 31, 2006.

Fiscal Summary

State Effect: General fund revenues could decrease by \$30.2 million annually beginning in FY 2007. General fund expenditures could increase by \$116,800 in FY 2007. Out-year expenditures reflect annualization and inflation.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$30,195,000)	(\$30,195,000)	(\$30,195,000)	(\$30,195,000)	(\$30,195,000)
GF Expenditure	116,800	178,200	189,200	201,100	214,000
Net Effect	(\$30,311,800)	(\$30,373,200)	(\$30,384,200)	(\$30,396,100)	(\$30,409,000)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Corporations and other business entities are required to file their annual reports with SDAT. The filing fee for the annual report of a business entity is \$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 real estate investment trust (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.

State Revenues: Currently, SDAT collects filing fees from a lockbox and cross-checks fees received against the forms filed to ensure that business entities have paid the required fee. SDAT does not maintain a list of employers by size. However, the Department of Labor, Licensing, and Regulation (DLLR) does. The bill would require SDAT's charter unit to cross-check the filing fee received against some database to ensure that the business entity has paid the proper fee. It is assumed that SDAT would use the DLLR database for this purpose.

There is a discrepancy between the number of employers reported by DLLR (157,714) and the number of business entities that file annual reports with SDAT (165,035). It is assumed that all of these entities have 0-19 employees. Because the number of entities with fewer than 50 employees exceeds the number with 50 or more, general fund revenues would decrease by \$30,195,000, as shown in **Exhibit 1**. While the precise number of business entities filing annual reports may vary from year to year, it is assumed that it would be roughly the same.

Exhibit 1 Corporate Filing Fee Revenue by Employment Level

<u>Number of Employees</u>	<u>Number of Entities</u>	<u>Filing Fee</u>	<u>Revenue Loss</u>
0 – 19	144,820*	\$100	(\$28,964,000)
20 – 49	12,310	\$200	(\$1,231,000)
50 or More	7,905	\$300	\$0
Totals	165,035		(\$30,195,000)

*Includes the difference between the number of employers reported by DLLR and the number of business entities filing annual reports with SDAT

Source: State Department of Assessments and Taxation; Department of Labor, Licensing, and Regulation

State Expenditures: Additional personnel would be required in SDAT's charter unit to cross-check its database with DLLR's database. To that end, general fund expenditures could increase by an estimated \$116,835 in fiscal 2007, which accounts for the bill's October 1, 2006 effective date. This estimate reflects the cost of hiring four administrative specialists to verify employment information filed with annual reports. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- SDAT would be required to verify the employment level of any business entity that paid a filing fee below \$300 because it claimed employment of fewer than 50 employees; and
- these employees would start work around December 1, 2006 in order to train and be prepared to cross-check information with DLLR for any annual report filed after December 31, 2006.

Salaries and Fringe Benefits	\$98,598
Other Operating Expenses	<u>18,237</u>
Total FY 2007 State Expenditures	\$116,835

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 26, 2006
ncs/hlb

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