Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 10 (Delegate Manno)
Appropriations and Ways and Means

Teacher and Employee Pension Sustainability and Solvency Trust Fund

This bill requires affiliated corporations to compute Maryland taxable income using "combined reporting;" and makes permanent the temporary personal income tax surcharge currently imposed on taxpayers with net taxable incomes in excess of $1 million. The bill also repeals the corridor funding mechanism for the combined teachers' and State employees' retirement and pension systems and establishes the Teacher Pension Sustainability and Solvency Trust Fund to fund the difference in State pension contributions between the corridor funding rate and the full actuarial funding rate. The Comptroller is required to (1) distribute the estimated revenues generated as a result of the bill to the new special fund; and (2) adopt regulations to carry out the combined reporting provisions.

The bill takes effect July 1, 2010, and applies to tax year 2011 and beyond.

Fiscal Summary

State Effect: General fund revenues increase by $23.7 million in FY 2011 due to additional corporate income tax revenues. Transportation Trust Fund (TTF) revenues increase by $6.1 million in FY 2011. Special fund revenues distributed to the new pension fund increase by $27.3 million in FY 2011. Future years reflect estimated revenues distributed to the pension fund. General fund expenditures increase by $20,000 in FY 2011 due to administrative costs at the Comptroller's Office. General, special, and federal fund expenditures increase beginning in FY 2012 due to actuarial funding of pensions.

($ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	$23.7	$0	$0	$0	$0
SF Revenue	$33.4	$177.3	$196.6	$212.7	$223.8
GF Expenditure	$.0	$317.3	$378.6	$444.4	$446.2
SF Expenditure	$0	$35.5	$37.5	$40.4	$38.9
FF Expenditure	$0	$35.5	$37.5	$40.4	$38.9
Net Effect	$57.1	($210.9)	($257.1)	($312.4)	($300.3)

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

Local Effect: Local highway user revenues distributed from the corporate income tax increase by $1.8 million in FY 2011. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill (1) requires affiliated corporations to compute Maryland taxable income using “combined reporting”; and (2) makes permanent the temporary personal income tax surcharge currently imposed on taxpayers with net taxable incomes in excess of $1 million. The bill also repeals the corridor funding mechanism for the combined teachers’ and State employees’ retirement and pension systems and establishes the Teacher Pension Sustainability and Solvency Trust Fund to fund the difference in State pension contributions between the corridor funding rate and the full actuarial funding rate.

The additional income tax revenues that the Comptroller estimates is attributable to the bill must be transferred to the Teacher Pension Sustainability and Solvency Trust Fund. By March 1 of each calendar year, the Comptroller must estimate the additional corporate income tax revenue, if any, generated from combined reporting for the fiscal year that begins on July 1 of that year. The Comptroller is also required to distribute the amount of estimated additional revenue attributable to combined reporting to the Teacher Pension Sustainability and Solvency Trust Fund. The bill requires the Comptroller to adopt regulations to carry out the combined reporting provisions of the bill and the regulations must be consistent with the principles for determining the existence of a unitary business adopted by the Multi-State Tax Commission.

Combined groups are required to file “combined income tax returns,” except as provided by regulations. A corporation that is a member of a combined group must compute its Maryland taxable income using the combined reporting method: (1) taking into account the combined income of all members of the combined group; (2) apportioning the combined income to Maryland using the combined factors of all members of the combined group; and (3) allocating the apportionment determined under item two among the members of the group that are subject to the Maryland income tax. The bill provides that, subject to regulations issued by the Comptroller, corporations may elect to use the "water's edge method," essentially including only "United States corporations" (corporations incorporated in the United States and specified others, generally having significant United States presence) in the combined group for combined filing purposes.

Current Law:

Personal Income Tax

Chapter 3 of the 2007 special session enacted several changes to the personal income tax, including an increase in the top marginal income tax rate from 4.75% to 5.5%. Chapter 10 of 2008 repealed the sales and use tax on computer services imposed by Chapter 3 and established a temporary income tax surcharge of 6.25% on taxpayers with net taxable income in excess of $1 million. This surcharge is in effect for tax years 2008 through 2010. **Exhibit 1** and **Exhibit 2** show State income tax rates depending on filing status for tax years 2008 through 2010 and beginning in tax year 2011 when the surcharge is no longer in effect.

Exhibit 1
Maryland State Income Tax Rates
Tax Year 2008-2010

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
Rate	**Maryland Taxable Income**	**Rate**	**Maryland Taxable Income**
2.00%	$1-$1,000	2.00%	$1-$1,000
3.00%	$1,001-$2,000	3.00%	$1,001-$2,000
4.00%	$2,001-$3,000	4.00%	$2,001-$3,000
4.75%	$3,001-$150,000	4.75%	$3,001-$200,000
5.00%	$150,001-$300,000	5.00%	$200,001-$350,000
5.25%	$300,001-$500,000	5.25%	$350,001-$500,000
5.50%	$500,001-$1,000,000	5.50%	$500,001-$1,000,000
6.25%	Excess of $1 Million	6.25%	Excess of $1 Million

Exhibit 2
Maryland State Income Tax Rates
Beginning Tax Year 2011

Single, Dependent Filer, Married Filing Separate		Joint, Head of Household, Widower	
Rate	**Maryland Taxable Income**	**Rate**	**Maryland Taxable Income**
2.00%	$1-$1,000	2.00%	$1-$1,000
3.00%	$1,001-$2,000	3.00%	$1,001-$2,000
4.00%	$2,001-$3,000	4.00%	$2,001-$3,000
4.75%	$3,001-$150,000	4.75%	$3,001-$200,000
5.00%	$150,001-$300,000	5.00%	$200,001-$350,000
5.25%	$300,001-$500,000	5.25%	$350,001-$500,000
5.50%	Excess of $500,000	5.50%	Excess of $500,000

Corporate Income Tax

A corporate income tax rate of 8.25% is applied to a corporation's Maryland taxable income. In addition to increasing the tax rate, Chapter 3 of the 2007 special session temporarily distributed the estimated revenue increase to the newly established Higher Education Investment Fund (HEIF). The Budget Reconciliation and Financing Act of 2009 (Chapter 487) extended this provision through fiscal 2010 and stated that it is the intent of the General Assembly that, when it is fiscally prudent to do so, HEIF be made permanent. As a result, corporate income tax revenues in fiscal 2010 are distributed to the general fund (73.6%), TTF (20.4%), and HEIF (6.0%). Beginning in fiscal 2011, corporate income tax revenues will be distributed to the general fund (79.6%) and to the TTF (20.4%).

In general, the Maryland corporate income tax is computed using federal provisions to determine income and deductions. Maryland is a "unitary business" State, in that a corporation is required to allocate all of its Maryland income (that portion that is "derived from or reasonably attributable to its trade or business in the State") attributable to the corporation's "unitary business." Essentially, a unitary business exists when the operations of the business in various locations or divisions or through related members of a corporate group are interrelated to and interdependent on each other to such an extent that it is reasonable to treat the business as a single business for tax purposes and it is not practicable to accurately reflect the income of the various locations, divisions, or related members of a corporate group by separate accounting.

Under Maryland law, however, the application of the unitary business principle is limited in the case of affiliated groups of related corporations because of the requirement that each separate corporation must file a separate income tax return and determine its own taxable income on a separate basis. For a multi-corporate group, the unitary business principle is restricted to consider only the isolated income and business activities of each separate legal entity. Even though the activities of related corporations may constitute a single unitary business, the affiliated corporations that lack nexus with the State (or are protected from taxation by P.L. 86-272) are not subject to the State's income tax and neither the net income nor the apportionment factors of those affiliated corporations are taken into account on the corporate income tax return of any related corporation that is subject to the tax.

Teacher and State Employee Pension Systems

Teachers and State employees are members of one of four pension systems:

- Teacher' Retirement System (TRS)
- Employees' Retirement System (ERS)
- Teachers' Pension System (TPS)
- Employees' Pension System (EPS)

Chapters 23 and 24 of 1979 created TPS and EPS, and closed TRS and ERS to new membership. For the purpose of calculating State pension contributions, however, the two employee plans are combined and the two teacher plans are combined. However, because TRS/ERS have been closed for 30 years, the vast majority of teachers and State employees are in TPS/EPS, which have an employee contribution of 5% of earnable compensation and provide a retirement benefit allowance according to the following formula:

Years of Creditable Service Before 1998	x	Average Final Compensation (AFC)	x	1.2%

Plus

Years of Creditable Service After 1998	x	AFC	x	1.8%

Background:

Maryland's Corporate Income Tax

Every Maryland corporation and every corporation that conducts business within Maryland, including public service companies and financial institutions, are required to pay the corporate income tax. The tax base is the portion of federal taxable income, as determined for federal income tax purposes and adjusted for certain Maryland addition and subtraction modifications, that is allocable to Maryland. Federal taxable income for this purpose is the difference between total federal income and total federal deductions (including any special deductions). The next step is to calculate a corporation's Maryland taxable income. The Maryland taxable income of a corporation that operates wholly within the State is equal to its Maryland modified income. Corporations engaged in multistate operations are required to determine the portion of their modified income attributable to Maryland, based on the amount of their trade or business carried out in Maryland. Corporations are generally required to use either a double weighted sales factor (payroll and property being the other factors) or, in the case of a manufacturing corporation, a single sales factor. The apportionment factor is multiplied by a corporation's modified income to determine Maryland taxable income. The Maryland tax liability of a corporation equals the Maryland taxable income multiplied by the tax rate less any tax credits.

Combined Reporting

Corporate income tax reform activity has significantly increased in Maryland and several other states in the wake of highly publicized cases involving corporate income tax avoidance at both the federal and state levels. Corporate income tax compliance legislation enacted in 2004 and 2007 addressed two well-publicized techniques for avoiding State income tax in a "separate reporting" jurisdiction such as Maryland – Delaware Holding Companies (DHCs) and captive Real Estate Investment Trusts (REITs). In addition to this legislation, the General Assembly has considered proposals that would require combined reporting, impose an alternative minimum assessment on corporations, attempt to increase tax compliance related to offshore "tax havens," and employ throwback rules that would tax income that is not apportioned to any state.

A number of states, including Maryland, allow or require that taxes on income be computed on the basis of the books and records of separate corporate entities without regard to the fact that the entity may be a member of a commonly owned and controlled group of entities functioning as a single business. Under combined reporting, the combined income of all members of the unitary group is taken into account as the starting point for determining Maryland taxable income. The combined taxable income is then apportioned to Maryland using the combined apportionment factors of all the members of the group. Considerable debate exists over the combined reporting revenue impacts, implementation burden, and impacts on specific corporate sectors.

Chapter 3 of the 2007 special session overhauled the State's tax structure as part of a plan to address the State's structural deficit. As introduced, the Governor included a proposal to require multistate corporate groups to use the combined reporting method. In lieu of requiring combined reporting, Chapter 3 as enacted provides for enhanced reporting of corporate data to the Comptroller and also establishes a business tax study commission to review and evaluate the State's business tax structure. The information required to be submitted under Chapter 3 is designed to enable the Comptroller to analyze the impacts of combined reporting as well as assess and enhance overall corporate tax compliance. Chapter 3 is also designed to provide data necessary to (1) enable a better assessment of the current statutory incidence of the corporate income tax; (2) analyze the impacts of other corporate income tax proposals; and (3)analyze the impact of changes in the corporate income tax and job growth in the State.

Comptroller's Analysis of Combined Reporting

In October 2009, the Comptroller's Office issued an initial analysis of the impact combined reporting would have had on corporate income tax returns filed in tax year 2006. The analysis included the estimated impact on total revenues and impact on taxpayers by income and industry classification. The Comptroller's Office estimated these impacts under two different methods of apportioning the income of a combined group to Maryland ("Joyce" and "Finnegan") and concluded that the method employed could alter the estimated impacts. Under both methods, the denominator of the apportionment factor is based on the total payroll, property, and sales of all members of the group, regardless of whether they are subject to Maryland's corporate income tax (have nexus with Maryland). Under the Joyce method of apportionment, the numerator consists of the payroll, property, and sales of all of the entities in the group with nexus. Finnegan also apportions the payroll, property and sales of all entities with nexus as well as the payroll, property, and sales of companies that make sales into the State.

The Comptroller's Office estimates that the Joyce method of apportionment would have increased corporate income tax revenues by about $109 million, a net increase of 12.5% ($170 million and 19.5% under Finnegan). The Comptroller's Office stressed that the estimates were preliminary, likely to change as corporations file amended returns, and was not an estimate of the fiscal impact of adopting combined reporting during the 2010 session.

Several factors will likely alter the current fiscal impact compared with the impact in tax year 2006, notably the steep decrease in corporate profits. The Comptroller's Office noted that two of the industries that produced the vast majority of additional revenue in tax year 2006, retail trade and finance and insurance services, are among those that have been hardest hit by the recession. The Comptroller's Office will issue revised tax year 2006 estimates in March 2010 as well as providing an initial analysis of tax year 2007.

Exhibit 3 lists the percentage of returns with an increase, decrease, and no change in tax liability in tax year 2006 by the income of the corporate group under the Joyce apportionment method as well as the net change in tax liability for each income group. Overall, the number of returns experiencing a decrease, increase, and no change in tax liability was roughly equal except that the average tax liability increase was significantly more than the average decrease in tax liability. Net tax liabilities were lower for corporate groups that were nontaxable and with less than $1 million in Maryland modified income, roughly the same for incomes between $1 million and $100 million, and were significantly higher for groups with incomes in excess of $100 million. Although numerous taxpayers across income groups would have an increase in tax liability, the vast majority of the estimated increase was generated by the 3% of returns with incomes in excess of $1 billion.

Exhibit 3
Combined Reporting Impact by Corporate Group Income
Under Joyce Method of Apportionment
Tax Year 2006

	Percentage of Returns with:			All Returns	
Group Maryland Modified Income	Tax Decrease	Tax Increase	No Change	Number	Net Change in Tax Liability ($ in Millions)
Nontaxable	29%	0%	71%	2,249	($61.3)
Under $500,000	32%	48%	20%	791	(0.7)
$500,000-$999,999	37%	48%	16%	197	(54.4)
$1-$5 Million	39%	50%	11%	677	(2.5)
$5-10 Million	37%	54%	9%	343	(0.7)
$10-$25 Million	35%	57%	8%	499	(2.9)
$25-100 Million	37%	56%	6%	694	(2.0)
$100-$250 Million	30%	65%	6%	352	18.0
$250-$500 Million	27%	71%	2%	173	19.0
$500 million-$1 Billion	28%	68%	4%	124	39.1
$1 Billion and Over	26%	74%	0%	158	157.4
All Returns	32%	35%	32%	6,257	109.0

Source: Comptroller's Office

Under Finnegan, the results were mostly similar, although it was estimated that net tax liabilities would increase for corporate groups with incomes in excess of $25 million (instead of $100 million as under Joyce), with net tax increases about one-fifth higher for corporate groups with the highest income.

Exhibit 4 lists the estimated impact by the predominant industry classification of the corporate group. Although the impact within each industry displayed significant variation, it was estimated that there were large net decreases in total tax liabilities in utilities, manufacturing, management of companies, and health care and large increases in the trade and finance and insurance industries. Under Finnegan, however, it was estimated that the manufacturing industry would have a large net increase in total tax liabilities while larger increases were estimated in professional, scientific, and technical services; finance and industry, trade, and information industries.

Exhibit 4
Combined Reporting Impact by Industry
Joyce Method of Apportionment
Tax Year 2006

	Percent of Returns with:			All Returns	
Industry	**Tax Decrease**	**Tax Increase**	**No Change**	**Returns**	**Net Change in Tax Liability ($ in Millions)**
Agriculture	28%	38%	34%	29	$0.1
Mining	26%	42%	32%	31	0.2
Utilities	32%	33%	35%	94	(15.9)
Construction	35%	34%	30%	297	4.8
Manufacturing	35%	37%	28%	1,470	(6.2)
Wholesale Trade	33%	46%	21%	426	13.2
Retail Trade	25%	51%	24%	404	77.4
Transportation and Warehousing	34%	42%	24%	229	3.0
Information	32%	29%	39%	333	1.8
Finance and Insurance	31%	34%	35%	608	44.3
Real Estate and Rental and Leasing	31%	29%	40%	429	0.9
Professional, Scientific, and Technical Services	30%	30%	40%	905	1.7
Management of Companies	38%	29%	33%	269	(10.1)
Admin. Support, Waste Mgmt. Remediation Services	35%	33%	32%	215	0.1
Educational Services	43%	34%	23%	47	(0.6)
Health Care and Social Assistance	31%	30%	39%	166	(9.0)
Arts, Entertainment, and Recreation	37%	21%	42%	43	(0.6)
Accommodation and Food Services	27%	44%	29%	131	3.8
Other	32%	29%	39%	131	0.0
Total	**32%**	**35%**	**32%**	**6,257**	**109.0**

Personal Income Tax

Due to the State's fiscal crisis in the early 1990s, the General Assembly approved a temporary 6% income tax bracket on taxable incomes over $100,000 for single taxpayers and $150,000 for joint returns. The increased rate applied for tax years 1992 through 1994 only. Chapter 4 of 1997 reduced the top marginal rate from 5% to 4.75%. Chapter 3 of 2007 increased the number of income tax brackets and the top marginal rate to 5.5%, which was subsequently increased by Chapter 10 of 2008 to 6.25% for taxpayers with net taxable incomes in excess of $1 million. This rate is in effect for tax year 2008 through 2010.

Teacher and Employee Pensions

Chapter 440 of 2002 (the Budget Reconciliation and Financing Act) established the "corridor" funding method to mitigate the effects of fluctuations in market returns on the State's pension contribution rates by spreading out those effects over five years. In fiscal 2001, investment returns for the State Retirement and Pension System fell 9.4%, prompting projected employer contribution rates for fiscal 2003 to increase for the first time in five years. Instead, the corridor method froze employer contribution rates for the State pension plans covering teachers and regular State employees, the two largest State pension plans, at their fiscal 2002 levels as long as the two systems remained actuarially funded between 90% and 110%. Under the corridor method, when the plans' funded levels drop below 90%, the employer contributions increase by an amount equal to one-fifth of the difference between the prior year's contribution and the "true" actuarial rate required to fully fund the systems. The employees' system fell out of the corridor in fiscal 2005, and the teachers' plans fell out of the corridor in fiscal 2006. As of June 30, 2009, the employees' system is 61.2% funded and the teachers' system is 66.1% funded; neither is projected to reach 90% funding for at least 10 years.

State Revenues: State revenues are affected by extending the personal income tax surcharge and by requiring corporations to use combined reporting. These changes are effective tax year 2011. The bill alters the distribution of the personal income tax effective July 1, 2010. It is assumed that all revenues generated from the personal income tax surcharge accrue to the pension fund established by the bill beginning in fiscal 2011. The bill also requires that the Comptroller's Office estimate, beginning on March 1 of each year, the amount of revenues, if any, that combined reporting will generate in the fiscal year beginning July 1 of that year. The Comptroller's Office will first perform this estimate March 1, 2011, for the estimated revenues generated in fiscal 2012. As a result, it is assumed that any revenues generated by combined reporting in fiscal 2011 will be distributed based on current law and distributed to the pension fund beginning in fiscal 2012. As a result, it is assumed that general fund revenues increase by

$23.7 million in fiscal 2011. TTF revenues increase by $6.1 million. Special fund revenues increase by $27.3 million in fiscal 2011 and by $223.8 million in fiscal 2015.

Extend Temporary Income Tax Surcharge

The bill permanently extends the temporary personal income tax surcharge on taxpayers with net taxable incomes in excess of $1 million beginning tax year 2011, with special fund revenues increasing by $67.0 million. As a result, fiscal 2011 revenues increase by $27.3 million, which reflects about 40% of the change in tax year 2011. Beginning with fiscal 2012, the impact is generally 40% of the current tax year and 60% of the following tax year. **Exhibit 5** shows the fiscal impact of the rate adjustment in fiscal 2011 through 2015. The Comptroller's Office advises that complete data for tax year 2011 will not be available until October 2012, which occurs in fiscal 2013. Due to difficulties in estimating the change in each year, the actual revenue distributed in each year may vary significantly than estimated.

Exhibit 5
Effect of Personal Income Tax Surcharge
($ in Millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenues	$27.3	$69.8	$77.1	$85.0	$92.3
Total Revenues	**$27.3**	**$69.8**	**$77.1**	**$85.0**	**$92.3**

Combined Reporting

The bill requires combined reporting beginning in tax year 2011 and requires the Comptroller's Office to distribute the estimated increase, if any, to the pension fund established by the bill beginning in fiscal 2012. It is assumed that any revenue generated from the bill in fiscal 2011 is distributed according to current law. As a result, general fund revenues increase by $23.7 million in fiscal 2011. TTF revenues increase by $6.1 million. Special fund revenues increase by $107.5 million in fiscal 2012 and by $131.5 million in fiscal 2015. **Exhibit 6** shows the impact of combined reporting in fiscal 2011 through 2015.

Exhibit 6
Effect of Combined Reporting
($ in Millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenues	$23.7	$0.0	$0.0	$0.0	$0.0
TTF Revenues	6.1	0.0	0.0	0.0	0.0
SF Revenues	0.0	107.5	119.5	127.7	131.5
Total Revenues	**29.8**	**107.5**	**119.5**	**127.7**	**131.5**

This estimate is based on the Comptroller's estimate on the tax year 2006 impact of combined reporting, adjusted for subsequent changes in the economy and corporate income tax revenues. The actual impact of combined reporting could vary significantly than estimated above based on these variable factors and implementation of combined reporting as adopted by regulations. In addition, the bill does not alter safe harbor requirements. As a result, the fiscal impact of the bill in fiscal 2011 may be significantly less than estimated and may result in a revenue decrease. The Comptroller's Office advises that the amount distributed to the fund in each fiscal year may vary substantially from the actual impact of combined reporting given the volatility of the corporate income tax, difficulty in estimating the fiscal impact of combined reporting, and timing of the bill.

State Expenditures:

Pension Systems

Exhibit 7 projects the difference between corridor funding rates and full (actuarial) funding rates for fiscal 2012 to 2015, as well as the State contributions that correspond to those rates. These projections are based on the following assumptions:

- the pension trust fund earns 15% in market returns on its investments in fiscal 2010 and 7.75% in each subsequent year (fiscal year to date returns as of December 31, 2009, were 16.6%);
- State employee payroll grows by 1% in fiscal 2010 and 3.5% in each subsequent year;
- teacher payroll grows by 2% in fiscal 2010 and 3.5% in each subsequent year; and

- regardless of the balance in the Teacher Pension Sustainability and Solvency Trust Fund, the State contributes the full actuarial funding amount each year beginning in fiscal 2012.

Teacher pension contributions are paid entirely by general funds, while State employee contributions are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds. Therefore, the general fund share of the difference between corridor and actuarial funding is $317.3 million in fiscal 2012, increasing to $446.2 million in fiscal 2015. To the extent that the fund balance in the Teacher Pension Sustainability and Solvency Trust Fund falls short of these amounts, general funds will have to make up the difference to maintain full actuarial funding of the combined teachers' and employees' systems.

Exhibit 6
Effect on Pension Expenditures

	FY 2012	FY 2013	FY 2014	FY 2015
Teachers' Combined System				
Corridor Rate	15.12%	16.07%	17.18%	18.28%
Actuarial Rate	18.24%	19.87%	21.64%	22.67%
Corridor Contribution	$1,023,400,000	$1,125,800,000	$1,245,700,000	$1,371,800,000
Actuarial Contribution	1,234,300,000	1,391,800,000	1,569,000,000	1,701,200,000
Difference	**$210,900,000**	**$266,000,000**	**$323,300,000**	**$329,400,000**
Employees Combined Systems				
Corridor Rate	12.99%	14.32%	15.70%	16.99%
Actuarial Rate	18.21%	19.66%	21.24%	22.16%
Corridor Contribution	$441,400,000	$503,700,000	$571,500,000	$640,100,000
Actuarial Contribution	618,700,000	691,400,000	773,300,000	834,800,000
Difference	**$177,300,000**	**$187,700,000**	**$201,800,000**	**$194,700,000**
Combined Difference	**$388,200,000**	**$453,700,000**	**$525,100,000**	**$524,100,000**
GF Share of difference	**$317,280,000**	**$378,620,000**	**$444,380,000**	**$446,220,000**

Sources: Segal; Cheiron; Gabriel, Roeder & Smith

Comptroller's Office

The Comptroller's Office reports that it will incur additional expenditures of $20,000 in fiscal 2011 in order to provide combined reporting training to auditors.

Exhibit 8 shows the net impact of the bill in fiscal 2011 through 2015.

Exhibit 8
HB 10 Net Impact
($ in Millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues					
GF Revenues	$23.7	$0.0	$0.0	$0.0	$0.0
TTF Revenues	6.1	0.0	0.0	0.0	0.0
SF Revenues	27.3	177.3	196.6	212.7	223.8
Total Revenues	**57.1**	**177.3**	**196.6**	**212.7**	**223.8**
Expenditures					
General Fund	0	317.3	378.6	444.4	446.2
Special Fund	0	35.5	37.5	40.4	38.9
Federal Fund	0	35.5	37.5	40.4	38.9
Total Expenditures	**0.0**	**388.2**	**453.7**	**525.1**	**524.1**
Net Impact	**57.1**	**(210.9)**	**(257.1)**	**(312.4)**	**(300.3)**

Small Business Effect: Small businesses that are partnerships, S corporations, limited liability companies, and sole proprietorships would be meaningfully impacted by the bill. These small businesses with higher amounts of taxable income would be negatively impacted through increased income tax liabilities. An unknown number of impacted businesses would be small businesses. Any impacted small business that was a sole proprietorship would have net profits in excess of $1 million, after deducting wages and all other expenses, including depreciation on any real property or equipment used in the business. For small business having multiple owners or partners, the business would not be impacted unless the business had net profits high enough to distribute in excess of $1 million to any individual or partner.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

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