



January 19, 2021

The Honorable Guy Guzzone, Chair  
Budget and Taxation Committee  
Miller Senate Office Building  
Annapolis, MD 21401

SB 123 Small Business Fairness Act - UNFAVORABLE

Dear Chair Guzzone and members of the Committee:

The Maryland Association of CPAs represents nearly 9,000 Certified Public Accountants throughout the state. These CPAs are in public practice, private industry, government, non-profit, and education.

A change to a combined reporting system would positively impact some businesses while negatively impacting others, as was demonstrated in data collected by the Office of the Comptroller. As CPAs, we represent businesses in both categories and, as such, do not take a position to support or oppose the adoption of combined reporting into Maryland law. Our focus is to ensure that any legislation enacted on this topic is both enforceable and unambiguous in order for our members to effectively compute this tax for clients.

Beyond interpreting the legislation, significant work is required of the Comptroller's office, and by taxpayers and tax preparers. The Comptroller's office must prepare draft regulations, allow for the required public comment period, and finalize the regulations. They must train their auditors and taxpayer-assistance staff, and develop administrative protocols such as forms, instructions, and computer programming changes, in order to accommodate the new filing method. Other states can be used as models, but these processes must still be made specific to Maryland.

Taxpayers and tax practitioners will need to become educated about the new statute and regulations and forms. Many will have to modify or acquire new tax preparation software. They will have to study the detailed operations of each and every corporation in order to make the fact-driven and interpretive determinations of which corporations are properly includable in a "unitary" combined reporting group, and they will have to collect data they never had to prepare before, for correct preparation of the income tax return.

Organizations such as MACPA will need to actively publicize the new requirements and provide educational programs to its members and their clients to help prepare for these new processes.

Maryland and many nearby states have always been separate entity states, so combined reporting is a new concept to many Maryland taxpayers and tax practitioners. Combined reporting will have implications for all corporate groups no matter the size of their businesses, and it is the small and medium sized corporations, of whom there are many with operations in Maryland, that will find the new administrative requirements most burdensome. Providing sufficient time for educating them would make for a better transition to the new law.

An implementation date applying to all taxable years beginning after December 31, 2021 as proposed in SB 123 is an inadequate timeframe to properly address all of these issues. A proper implementation timeline would allow at least two years of preparation time, i.e. tax years after December 31, 2023.

Combined reporting is a complex change for taxpayers, tax preparers, and the Comptroller's office. Without opposing or supporting the adoption of combined reporting, we respectfully observe that SB 123 does not provide the required time to effectively deal with the complex technical issues related to implementation. We therefore recommend an unfavorable report for SB 123.

Thank you very much for the opportunity to offer these comments for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Thomas Hood, III". The signature is fluid and cursive, with a large initial "J" and "H".

J. Thomas Hood, III, CPA CEO & Executive Director  
cc: Nick Manis, Manis Canning & Associates