



January 26, 2021

Maryland House of Delegates
Committee on Ways & Means
Room 131
House Office Building
Annapolis, MD 21401

Re: Conditional Support for House Bill 0172 – Combined Reporting

Dear Chair Kaiser, Vice Chair Washington, and members of the House Committee on Ways & Means:

Choice Hotels International, Inc., headquartered in Rockville, MD submits these comments in conditional support of House Bill 0172, which would, among other things, require affiliated corporations to compute Maryland taxable income using a certain combined reporting method.

About Choice Hotels

Choice Hotels International, Inc., headquartered in Rockville, MD is one of the largest lodging franchisors in the world. With more than 7,100 hotels, representing nearly 600,000 rooms, in over 40 countries and territories as of September 30, 2020, the Choice® family of hotel brands provide business and leisure travelers with a range of high-quality lodging options from limited service to full-service hotels in the upscale, midscale, extended-stay and economy segments.

Market-Based Sourcing

Choice is not opposed, in principle, to the proposal in HB 0172 to move Maryland to a combined reporting corporate tax regime. However, the bill as currently drafted does not address the issue of sourcing of income for Maryland corporations that are franchisors. For Maryland-headquartered franchisors, it is critical that Maryland adopt market-based sourcing, whereby Maryland would only tax royalties received from customers in Maryland. Most states use market-based sourcing as the basis for taxing royalty income, and Choice strongly supports adoption of this method.



If this bill were amended to clarify that Maryland would adopt market-based sourcing, Choice Hotels would support passage of the bill. Without such an amendment, Choice opposes the bill because it would discriminate against Maryland-headquartered companies, putting us at a substantial competitive disadvantage with out-of-state companies.

We note that Maryland uses a unique method of sourcing several different types of income including not only royalties but also dividends, interest, and capital gains. In our view, Maryland should use market-based sourcing for all revenues. Furthermore, Maryland is the only state in the country using in-state property and payroll percentages to compute the sales factor, which harms companies that invest heavily in the state, and has the effect of benefiting companies that do not.

Choice Hotels appreciates the opportunity to provide these comments on House Bill 0172.