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BILL NO. :	**Senate Bill 596**
TITLE:	Corporate Income Tax - Single Sales Factor Apportionment - Deferred Tax Relief
COMMITTEE:	Senate Budget and Taxation Committee
HEARING DATE:	February 23, 2022
VERIZON POSITION:	**SUPPORT**

PURPOSE OF BILL: SB 596 creates a subtraction modification against the corporate income tax for certain corporations whose deferred taxes were increased by Chapters 341 and 342 of 2018, which generally require corporations to apportion income using a single sales factor formula. The subtraction may be used to reduce the corporation's Maryland modified income for 10 consecutive years beginning with the first taxable year that begins after December 31, 2031. The bill takes effect July 1, 2022.

COMMENTS:

Verizon supports SB 596, Deferred Tax Relief for Single Sales Factor as an important tax policy provision for publicly traded companies forced to undergo changes to apportionment factors. This provision is very important to publicly traded companies with large capital investments like energy or telecommunications companies.

Companies record deferred tax assets and liabilities for financial reporting purposes under Generally Accepted Accounting Principles (GAAP) rules. The Internal Revenue Code and associated state rules for recording income and expenses are often different from the GAAP rules for recording income and expenses. The different accounting methods typically result in the creation of tax assets and tax liabilities on the balance sheets of companies. Significant tax law changes—for example, a move to mandatory unitary combined reporting or the adoption of an entirely new tax structure like Single Sales Factor typically requires companies to re-compute the value of tax assets or liabilities they had previously recorded. The cumulative effect of that re-computation often requires companies to immediately record additional tax expenses under Accounting Standards Codification (ASC) 740, "Income Taxes." The recognition of those expenses may result in an immediate market adjustment of the company's stock price and value.

SB 596 allows for the recovery of book/tax differences through a deduction to be claimed in the future that can be spread equally over a specified period of time. By providing a reasonable schedule to allow the future deduction of the additional expenses triggered from any book/tax differences, Maryland could eliminate any financial reporting impact that may be required under ASC 740. We urge the Committee to adopt SB 596 which would provide a deduction for the deferred tax impact for publically traded companies amortized over 10 years.

FOR ADDITIONAL INFORMATION CONTACT:

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