



Mar. 7, 2023

The Honorable Guy Guzzone, Chair  
Budget & Taxation Committee  
Miller Senate Office Building  
Annapolis, Md. 21401

Re: SB 576, "*Corporate Income Tax - Combined Reporting*" - **INFORMATIONAL**

Dear Chair Guzzone and members of the Committee:

The Maryland Association of CPAs represents nearly 8,000 Certified Public Accountants throughout the state. These CPAs work 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 allows a sufficient amount of time to prepare and implement the change. The language should be both enforceable and unambiguous in order for our members to effectively compute this tax for clients.

Combined reporting creates additional complexities in corporate income tax systems and taxpayer compliance, not to mention the challenging financial statement accounting required by CPAs to assist their clients (balance sheet deferred tax accounts must be reevaluated for the change). This is the case even for companies that have no immediate cash effect from the change — e.g., if they have losses and will pay no tax under combined reporting. Other states have included provisions in their legislation that help to reduce this complexity.

Beyond interpreting the legislation, significant advanced preparation 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. In anticipation of a more complex audits and appeals process, significant training is required of the state auditors and taxpayer-assistance staff. Administrative protocols including forms, instructions, and computer programming changes are necessary to accommodate the new filing method. Other states can be used as models, but these processes must still be adapted specifically to Maryland.

Taxpayers and tax practitioners will need to be educated about the new statute, regulations, and updated 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 the MACPA will need to actively publicize the new requirements and provide educational programs to CPAs 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 small and medium-sized corporations — of whom there are many with operations in Maryland — will find the new administrative requirements most burdensome. Allowing sufficient time to educate them would make for a better transition to the new law.

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 ask for your consideration of these complex compliance requirements and incorporate the necessary preparation time, we suggest at least two years, required at all levels for satisfactory implementation.

Thank you very much for the opportunity to offer these comments for your consideration. If you have any questions or if we can provide additional information, please contact Mary Beth Halpern of the MACPA at [marybeth@macpa.org](mailto:marybeth@macpa.org) or 443-632-2330.

Sincerely,

MACPA State Tax Committee

cc: Nick Manis, Manis Canning & Associates