



March 7, 2023

The Honorable Guy Guzzone
3 West Miller Senate Office Building
11 Bladen Street
Annapolis, MD 21401

Re: GBA Opposes U.S. Source Income Provision in SB 576

Dear Chair Guzzone, Vice Chair Rosapepe and Members of the Senate Budget and Taxation Committee:

On behalf of the Global Business Alliance (GBA), I am writing in opposition to certain provisions within SB 576 that would create an unfavorable tax environment that will deter investment and growth in the state and make Maryland an outlier from other states that have adopted combined reporting.

GBA represents nearly 200 U.S. companies with a global heritage. Nearly 800 international companies employ over 111,000 workers in Maryland. ¹ Nationally, on average, these firms pay American workers more than \$84,000 annually in wages and benefits, which is 10 percent higher than the economy-wide average.

Despite the fact that over twenty states have implemented combined reporting, **none** have required the inclusion of foreign entities solely based on receipt of U.S. source income. SB 576, in its current form, would create an extraterritorial water's edge tax system that imposes unfair and inappropriate double taxation for international businesses located in Maryland.

The most concerning provision in SB 576 is section 10-402.1(E)(2)(VI)(1), which asserts foreign unitary corporations that derive income from sources within the United States ("U.S. source income") would be required to be included in the Maryland water's edge combined group. Water's edge combined reporting in other states generally limits the unitary group to only U.S. affiliates, with very specific limited exceptions, none of which involve a U.S. source income standard. This approach would have the following negative consequences:

Create Disputes with Treaty Partners: Bilateral tax treaties ensure Maryland employers do not face double taxation on U.S. source income. In the past, some foreign governments have even enacted retaliatory action in response to states seeking to adopt a tax structure without a true water's edge system. If adopted, Maryland would be an outlier with other states and at odds with federal tax norms, which damages the state's economic competitiveness. Taxing U.S. source income would lead to extraterritorial double taxation, as this income is

¹ Bureau of Economic Analysis (BEA), Survey of Current Business, Activities of U.S. Affiliates of Foreign Multinational Enterprises in 2020, released August 2022.

already taxed by the country in which it is received. This hurts efforts to attract and retain international companies in the state.

Increase Revenue Volatility: Combined reporting is not a remedy for increasing revenue and could result in a loss of annual taxes collected. Proponents of SB 576/HB 46 cite needed funding for important state programs, but relying on an unstable revenue stream could be short-sighted and unsustainable. In Virginia, an interim legislative study commission and a burdensome informational-only filing were required for taxpayers to calculate taxes based on a combined reporting election. The Commonwealth concluded in 2021 to not move forward with combined reporting and one reason cited was the lack of a predictable revenue stream or possibility of a loss of revenue. ²

Generate More Complexity for Maryland Tax Administrators: As written, this bill would distort traditional norms of the water's edge methodology by including foreign affiliates with U.S. source income in a combined group. Every state with combined reporting has opted for a true water's edge methodology, which does not include all unitary foreign companies simply because they have U.S. source income. This approach creates significant complexity and compliance burdens not only for the state but for Maryland employers as well.

Maryland already addresses abusive related party transactions with expense deduction addback rules.³ These rules provide for specific exceptions for legitimate business transactions, including companies' operations in treaty countries. The U.S. source income provision in SB 576 effectively overrides the exceptions to the expense deduction addback rules, which were carefully crafted to protect legitimate business transactions.

To ensure Maryland remains an attractive destination for investment, we encourage the committee to consider the negative impacts of SB 576. If you have questions, please contact me at mbeeson@globalbusiness.org or at (202) 770-5141.

Sincerely,



Meredith Beeson
Senior Director, State Affairs
Global Business Alliance

² [“Work Group to Assess the Feasibility of Transitions to a Unitary Interim Study Reporting System for Corporate Income Tax Purposes”](#) Division of Legislative Services 2021 Interim Legislative Study; Commonwealth of Virginia.

³ Maryland Tax- General Article Section 10-306.1.



**GLOBAL
BUSINESS
ALLIANCE**

Investing in America

Foreign Direct Investment Strengthens **MARYLAND'S ECONOMY**

HIGH QUALITY JOBS

111,400 workers in Maryland are employed as a result of international investment.

MANUFACTURING

28,400 workers in Maryland - **26 percent** of all FDI jobs in the state - are in the **manufacturing sector**.

GLOBALLY CONNECTED

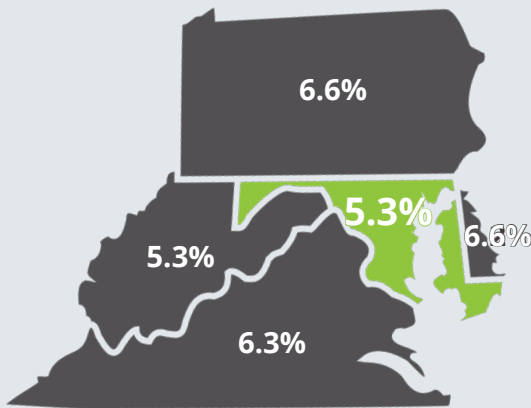
Among all international employers, those from the **United Kingdom**, the **Netherlands** and **Canada** support the largest number of jobs in Maryland.

MANY EMPLOYERS

Nearly **800 international employers** have operations in Maryland.

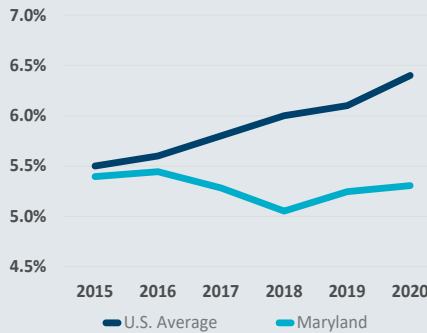
INTERNATIONAL INVESTMENT CONTRIBUTES TO MARYLAND'S ECONOMY

Maryland vs. Its Neighbors
FDI Jobs as a % of Total Employment



Maryland vs. USA

FDI Jobs as a % of Total Employment



Maryland trails the national average in its portion of jobs supported by FDI.

From 2010 to 2020, Maryland's FDI employment...



while the state's overall private-sector employment



DISCOVER THE FULL LIST OF GBA MEMBERS

Nearly 200 international companies comprise GBA's membership, representing a slice of the U.S. economy that provides eight million high-quality jobs that pay an average of 10 percent higher compensation than the economy-wide average. Our members are some of the largest international employers in the country. Browse through our membership list using the QR code.





GLOBAL
BUSINESS
ALLIANCE

Investing in America

Foreign Direct Investment Strengthens AMERICA'S ECONOMY

MANUFACTURING

In the last five years, international companies created **nearly 400,000** new manufacturing jobs while the U.S. overall sadly **lost 223,000**.

INNOVATION

International companies spend more than **\$71 billion** on U.S. R&D activities, or **13%** of all R&D performed by U.S. companies.

EXPORTS

U.S. workers of international companies produce **24%** of U.S. exports, shipping **\$347 billion** in goods to customers around the world.

SUPPLY CHAINS

For every U.S. job at an international company, **three more** are supported in the U.S. economy.

TAX

International companies pay **18%** of all federal corporate income taxes.

Record Number of FDI Jobs

7.9 MILLION

Nationally, 7.9 million U.S. workers are employed by international companies.

Good Paying Jobs

\$84,836

Across the nation, U.S. workers at international companies earn 10 percent higher compensation than the economy-wide average - making \$84,836 annually.

Current Employers Drive Growth

50%

Last year, FDI in the U.S. was driven largely - 50 percent - by reinvesting earnings from current employers, above the historic trend.

From 2015 to 2020, America's FDI employment...

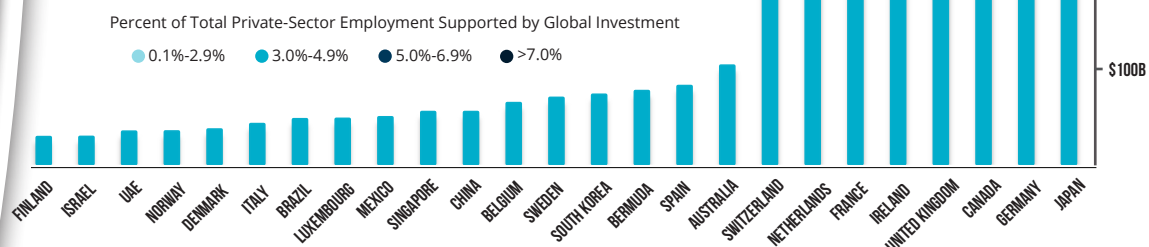
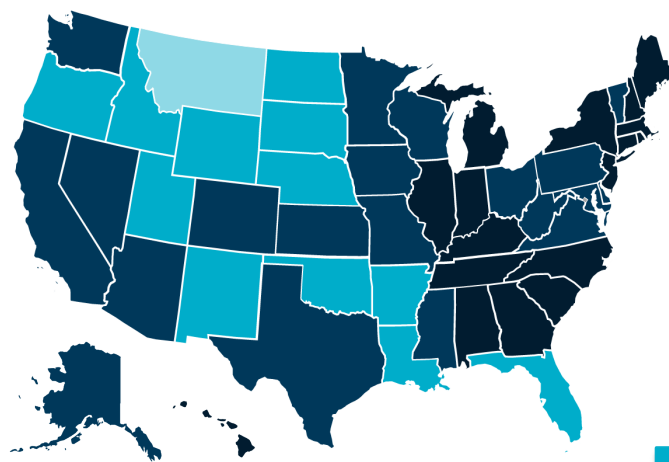


15%

while the country's overall private-sector employment remained

FLAT

Share of Foreign Direct Investment Jobs by State



Foreign Direct Investment in America by Country

Figures based on the Bureau of Economic Analysis (BEA), Survey of Current Business, U.S. International Transactions, released September 2022; Activities of U.S. Affiliates of Foreign Multinational Enterprises in 2020, released August 2022.