February 21, 2024

Chair Guy Guzzone
Senate Budget and Taxation Committee
3 West, Miller Senate Office Building
Annapolis, MD 21401

Re: GBA Opposes Damaging Worldwide Combined Reporting Provision in SB 766

Dear Chair Guzzone,

On behalf of the Global Business Alliance (GBA), I am writing to express concerns with certain provisions within SB 766 that would impose an untested and widely rejected tax known as mandatory worldwide combined reporting. This approach would make Maryland an international outlier, create revenue volatility for the state and hurt relationships with key trading partners.

GBA represents nearly 200 U.S. companies with a global heritage. Over 800 international companies employ nearly 118,000 Marylanders.[1] Employment at international companies in the state has increased by 13 percent, while Maryland's overall private sector only increased by six percent over the past ten years. Nationally, on average, these firms pay American workers more than $86,000 annually in wages and benefits. See more information on the ways our companies support Maryland's economy.

SB 766 would create an extraterritorial tax system that would impose unfair and inappropriate double taxation on international businesses located in Maryland.[2] Even though over twenty states have implemented combined reporting, **none** has mandated a worldwide combined reporting approach.

In fact, New Hampshire and Maine both recently studied mandatory worldwide combined reporting, only to firmly reject such a policy. To date, every state with combined reporting has opted for a true water's edge methodology. If imposed, mandatory worldwide combining would not only cause erratic revenue but could even reduce corporate tax revenue, endangering the state's funding priorities. See more details enclosed about how revenue may be jeopardized.

[1] Bureau of Economic Analysis (BEA), Survey of Current Business, Activities of U.S. Affiliates of Foreign Multinational Enterprises in 2020, released August 2023.
[2] Mandatory Worldwide Combined Reporting Section 17 10–402.1 in SB 766.

Such a misguided policy would also likely create international disputes with Maryland's top trading partners. In the past, some foreign governments have enacted retaliatory measures in response to states seeking to adopt worldwide combined reporting without a true water's edge protection.

Mandatory worldwide combined reporting, as proposed in SB 766, would adversely affect companies wishing to create jobs. It could also decrease total revenue to the state from existing multinationals. Please see additional information enclosed. For the reasons summarized above, I urge you to reject this misguided tax proposal.

Sincerely,

Meredith Beeson

Senior Director, State Affairs

Global Business Alliance

Enclosure

cc: Vice Chair Rosapepe, Senator Bailey, Senator Benson, Senator Corderman, Senator Elfreth, Senator Hettleman, Senator Jackson, Senator Jennings, Senator King, Senator McCray, Senator Salling, Senator Zucker and Kimberly Landry, Committee Manager, Senate Budget and Taxation Committee.

Worldwide Reporting Makes Maryland an Outlier

Combined reporting exists in several states, but none mandates an overreaching worldwide approach.

- Under combined reporting, a group of companies files one tax return based on the combined income of an identified "unitary group."
- The typical approach to combined reporting is water's edge, with a minority of states permitting a worldwide option.
- A true water's edge system generally includes only U.S. companies in the combined group, which every state that has imposed combined reporting has done.
- Earlier this year, New Hampshire voted down mandatory worldwide combined reporting after a comprehensive study was completed.

Mandatory worldwide combined reporting creates revenue volatility and will cause litigation.

- Any form of combined reporting may result in increases or decreases in a state's revenue, given that it may increase or reduce a taxpayer's liability, but this volatility is especially true with worldwide combined reporting.
- Revenues collected by the state may decrease:
    - If a non-U.S. company has losses;
    - If a multi-national company's global operations are proportionately less profitable than their domestic operations; or
    - Based upon the use of global data to calculate a group's apportionment of income.
- Without a true water's edge boundary, a myriad of challenges is created for taxpayers and state tax administrators, including access to foreign information, managing cross-border currency conversions, different accounting standards and reporting requirements, and language barriers.
- This is guaranteed to result in significant audit activity and prolonged litigation exposure.

Every state that has considered a mandatory worldwide combined reporting scheme has rejected it.

- Mandatory worldwide combined reporting threatens to impose significant double taxation on non-U.S. companies, is inconsistent with state, federal and international tax norms, and violates principles of U.S. tax treaties.
- Mandatory worldwide reporting will create disputes with treaty partners. 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.
- Imposing mandatory worldwide reporting will hurt efforts to attract and retain international companies and damage the state's competitiveness.

No other state has imposed mandatory worldwide combined reporting.

- New Hampshire and Maine have both carefully studied mandatory worldwide combined reporting and firmly rejected such a policy.
- Minnesota decided not to adopt mandatory worldwide combined reporting last year.
- Of the small minority of states that even permit worldwide combined reporting, it is only an OPTION, and each provides for a true water's edge designation.

The federal government does not impose worldwide combined reporting.

- The federal government has not had a bill to implement a worldwide combined reporting policy.
- In 2021, approximately 140 countries, including the U.S., agreed to a minimum 15% corporate global minimum tax, which several countries have begun to implement. The details, mechanics and implementation are still to be worked out, but this should alleviate some of the perceived concerns surrounding tax havens.