March 3, 2025

The Honorable Guy Guzzone
Chair, Senate Budget and Finance Committee
Miller Senate Office Building, 3 West Wing
11 Bladen Street
Annapolis, MD 21401

Subject: SB 859- The Fair Share Act for Maryland Is Neither "Fair" Nor Encouraging for Small or Large Businesses

Chair Guzzone and Members of the Senate Budget & Taxation Committee:

My name is Alan Pasetsky and I am a Maryland resident, small business owner, tax professional and tax advisor for the Global Business Alliance which advocates on behalf of international companies that employee over 122,000 employees in Maryland.

I am deeply disturbed at several of the tax provisions in SB 859. As you undoubtedly know, despite all that Maryland has to offer and its prime location, it is not a premier landing spot for individuals or corporations. Instead of creating a tax climate incentivizing individuals and small businesses to move here, stay and retire here and corporations to invest here, these proposals just drain more from individuals who do make Maryland their home and businesses that operate in Maryland. Being known as a state with individuals taxes rivaling the District of Columbia and California and a mandatory worldwide regime that NO state has is not the long-term goal I would think policy makers have in mind.

Let me start with mandatory worldwide combined reporting and why it makes absolutely no sense for Maryland. When some states had a concern for profit shifting 30 years ago, they either enacted water's edge combined reporting or a related party addback rule. In 2004, Maryland chose the addback route and enacted a law which addresses profit shifting (See Section 10-306.1 of Maryland General Tax Statutes). Unfortunately, worldwide tax proponents don't tell you the truth that any perceived loophole was closed over 20 years ago nor do they tell you about the complexity, audits and prolonged litigation that will result draining more resources from the State.

Concerning revenue, with worldwide taxation, some companies' taxes may increase, including Maryland based companies, and some may pay less meaning OVERALL revenue could go down! I point to Vermont which concluded in 2024 that worldwide could actually COST $1 million per year because: (1) not all companies overseas are profitable so including such loss companies reduces the total combined group income and Maryland tax and (2) like many states, **including Maryland**, Vermont already taxes some foreign income and Vermont realized moving to worldwide could result in a loss of that revenue. The proponents fail to disclose this information as well. A worldwide regime has been rejected by the entire country. Do you really think this would be the case if it had guaranteed revenue flows?

I'd like to also address the contention that worldwide is needed to eliminate discrimination against Maryland businesses. This again is inaccurate. All businesses, large, small, Maryland based, Virginia based and Canadian based, all compute their Maryland taxes in the same way and are taxed at the same rate. The fact that a multinational company can borrow from an affiliate instead of bank is not discriminatory. It would do so to perhaps obtain a lower interest rate or avoid additional bank fees. It's ironic but doing so would actually give such company less interest expense and business deductions which would increase its Maryland tax. This argument is the equivalent of saying mortgage interest is discriminatory because not everyone has a home or depreciation of assets is discriminatory because not every business has assets to depreciate.

When worldwide was in vogue 40 years ago, other countries were concerned that their companies were double taxed, once in their home country and again in Maryland, and were about to retaliate against companies from states that enacted worldwide. Why would you want to reinvigorate such disputes?

So to summarize the mandatory worldwide issues: no other state does it (other than for a few companies in Alaska- hardly something to consider as relevant), there is no guaranteed revenue, THERE IS NO LOOPHOLE as tax avoidance concerns are already addressed by current law, it is a huge burden for companies and for Maryland, Maryland would be a complete outlier in the country with an anti-business provision every state has rejected and it could cause retaliation by foreign countries against Maryland businesses.

On the individual tax side, the proposals to raise the individual rates are not only a disincentive for individuals to reside in Maryland, but also hurt small businesses, which I thought were an important focus of legislators. I think it is often forgotten that most small business owners are taxed as pass through entities or sole proprietorships so an increase in individual rates or taxing them at a higher corporation rate is a direct hit on such businesses. Given such businesses may be mobile and many employees can work remotely, why would any prudent business person set up a business or work in Maryland?

Finally on the individual side, the estate tax threshold reduction to $2 million is just not reflective of reality, the cost of living of the area or housing prices. First, the justification of reducing the threshold this because of an elimination of the inheritance tax is completely unfounded as there is an estate tax credit for inheritance tax paid. So, for example, currently if an estate would have had to incur an estate tax of $10,000 but there would also be an inheritance tax of $1,000 due, the estate tax would be reduced to $9,000 so Maryland would collect $10,000 in total. If the inheritance tax was repealed, Maryland would still collect $10,000 of estate tax so there is no revenue impact of repealing the inheritance tax. However, second, and most importantly, is that such a threshold is absurdly low and out of sync with the reality of

Maryland property values. It will result in taxing an estate with a modest size home where someone had a retirement plan and some prudent savings. It is out of line with the federal threshold and again, considering neighboring states have no estate tax, is a complete incentive to retire to a neighboring state to protect hard earned assets you would like to pass to your children. I feel very confident that this change will significantly impact where retirees decide to reside in their golden years as I and members of my community are already thinking about our options if this passes.

The tax increases and changes mentioned above will undoubtedly impact the choice people and businesses make in deciding where to live and invest. When tax rates were increased in previous years, people departed the state and they will again. As we have an aging population with many nearing or reaching retirement age, families and empty nesters downsize and relocate. Given the proposed income tax and estate tax changes, people will not consider Maryland as a retirement destination and those in Maryland will certainly consider nearby states such as Delaware (which has lower income taxes, no estate tax, much lower property taxes and no sales tax) and Virginia (which has lower income taxes and no estate tax). For the younger crowd, when deciding where to live, especially if remote work is an option, they will also consider neighboring states. This also impacts the Maryland business community as it will make it harder for Maryland businesses to find good local people to hire and more importantly, because small businesses are typically taxed at individual tax rates, they will operate from other states as well.

Thank you very much and I hope you consider that taxes really do matter to people and businesses when choosing where to live and invest.

Sincerely,

Alan Pasetsky

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