GLOBAL BUSINESS ALLIANCE
Investing in America

February 18, 2025

The Honorable Vanessa E. Atterbeary
Chair, House Ways and Means Committee
6 Bladen Street, House Office Building, Room 131
Annapolis, MD 21401

Re: GBA Opposes Damaging Worldwide Combined Reporting Provision in HB 1014

Dear Chair Atterbeary,

On behalf of the Global Business Alliance (GBA), I am writing to express concerns with certain provisions within HB 1014 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 860 international companies employ nearly 122,800 Marylanders.[1] Employment at international companies in the state has increased by four percent, while Maryland's overall private sector only increased by half a percent over the past five years. Nationally, on average, these firms pay American workers $89,000 annually in wages and benefits. See more information on the ways international companies support Maryland's economy.

HB 1014 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.

An overlooked fact is that Maryland enacted a related party addback rule in 2004 (Maryland Tax General Section 10-306.1) that addresses the concerns that worldwide reporting seeks to remedy.

In fact, Vermont, New Hampshire and Maine recently studied mandatory worldwide combined reporting, only to firmly reject such a policy and highlighting the potential loss of revenue form implementation. 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] See Mandatory Worldwide Combined Reporting Section 6 10–402.1 in HB 1014.

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 HB 1014, would adversely affect companies wishing to create jobs. It could also decrease total revenue to the state from existing multinationals and seek to close a perceived loophole that was closed over twenty years ago. Please see additional information enclosed. For the reasons summarized above, I urge you to reject this misguided tax proposal.

Sincerely,

Kelsey Johnson
Vice President, State Affairs
Global Business Alliance

Enclosure

cc: House Ways and Means Committee

GLOBAL BUSINESS ALLIANCE
Investing in America

Worldwide Reporting Makes Maryland Anti-Competitive with NO Guaranteed Revenue

Maryland Has Had Laws Enacted to Combat Perceived Loopholes Since 2004

- States that had been concerned about abusive transactions between members of a corporate group chose either to enact water's edge combined reporting or a related party addback rule.
- In 2004, Maryland enacted a related party addback rule (Maryland Tax General Section 10-306.1) and a related party adjustment section rule (Maryland Tax General Section 10-109), closing any perceived loopholes.

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.
  - For example, revenues collected by the state may decrease simply if a foreign company included in the group has losses, which is very likely given the global economy; and
  - Because Maryland (as do several other states) already taxes some foreign income, it could lose such revenue if mandatory worldwide was enacted.
- 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.

- In 2024, New Hampshire and Vermont voted down mandatory worldwide combined reporting after comprehensive studies were completed.
- Other states have also considered mandatory worldwide combined reporting, and all have rejected it for many reasons, including the lack of any predictable revenue.
- 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.