



Peter Franchot
Comptroller

David Roose
Director
Bureau of Revenue Estimates

March 1, 2011

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21404

Honorable Thomas V. "Mike" Miller, Jr.
President of the Senate
State House
Annapolis, Maryland 21404

Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21404

Dear Governor, President and Speaker:

This report is the third in a series of five annual reports required by Chapter 3 of the 2007 Special Session of the General Assembly, as modified by Chapter 177 of the 2008 Session, on Maryland's corporate income tax and the revenue effects of possible corporate income tax changes. Included in this report is the initial estimate of the impact of combined reporting for tax year 2008, as well as estimates for two other possible corporate income tax changes.

The estimates for the revenue changes from combined reporting are subject to the same caveats contained in the October 1, 2009 report from the Comptroller:

- these are estimates of the revenue impact for tax year 2008 only, not for future years;
- certain assumptions were made regarding the structure and details of the combined reporting—different assumptions could lead to different results;
- it is assumed that the introduction of combined reporting will not affect taxpayer behavior.

Tax year 2008 data show that under the Joyce method of apportionment, the tax liability of corporations in the utility, finance and insurance, and management of companies industries would have been \$89.1 million lower, greater than the \$53.3 million overall decrease (6.8% of tax year 2008 collections). The three industries that would have seen the largest increases in their net tax liabilities, those companies in the wholesale, retail, and professional, scientific, and technical service industries, would have seen a total liability increase of \$36.6 million. For those whose taxes would have been higher under Joyce, they would have seen their liabilities increase by more than \$178,000 on average. For those whose taxes would have been lower, they would have saved over \$132,000 on average. The same general pattern holds under the Finnigan method of apportionment,

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which would have resulted in a \$15.4 million revenue decline (1.9% of tax year 2008 collections). The attached tables provide detail by both size of corporate group and by industry, for tax year 2008.

The corporate information reporting also allows the estimation of two other potential changes to the corporate income tax—adoption of the throwback rule and 100% allocation of nonoperational income to Maryland. Corporate income is typically apportioned to the states in which a corporation does business, as measured by some combination of receipts, property and payroll. However, income can be earned in states in which a corporation does not have nexus (generally a state in which sales are made but in which the corporation has no payroll or property), and which is therefore not taxed by that state. The throwback rule brings this “nowhere income” back to the state in which the goods were produced or from which they were shipped.

The tax year 2008 corporate reporting data indicate that 216 entities would have had \$5.2 billion of income from sales made into states in which they do not have nexus thrown back to Maryland. After apportioning that income and accounting for losses, corporate income tax revenues would have been \$32.8 million higher, with 121 entities paying higher tax. If sales to the federal government were also thrown back to Maryland, an additional \$5.8 billion would have been thrown back, and corporate income tax revenues would have increased a further \$28.6 million. The actual revenue increase had the throwback rule been in effect would have been greater, barring behavioral changes, as single-entity corporations and non-corporate entities were exempt from these reporting requirements.

Generally, income from the regular course of business is apportionable. Certain non-business income, however, is only taxable by the state in which the income-producing assets are managed, usually the state of domicile. This income cannot be taxed by other states. Maryland law, however, apportions away much of this type of non-business income which no other state has the authority to tax. If 100% of nonoperational income were allocated to Maryland, corporate income tax revenues would have increased at least \$84.7 million. Again, this increase is probably understated due to the fact that single-entity corporations and non-corporate entities did not fall under these reporting requirements. As nonoperational income results from extraordinary transactions, by definition, it can be expected to be volatile. The estimate for 100% allocation of nonoperational income for tax years 2006 and 2007 was \$21.5 million and \$6.4 million, respectively, demonstrating the volatility.

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Further information on combined reporting can be found at the Maryland Business Tax Reform Commission's website, <http://btrc.maryland.gov/>. If you have any questions or concerns, please do not hesitate to contact me at 410-260-7450.

Sincerely,



David F. Roose
Director, Bureau of Revenue Estimates

cc. Comptroller Peter Franchot
Len Foxwell
Linda Tanton

Tax Year 2008 Estimated Impact of Combined Reporting
Joyce Method of Apportionment
By Group Maryland Modified Income

| Group Maryland Modified Income | Winners | | | Losers | | | No Change | Total | |
|-----------------------------------|--------------|----------------------|------------------|--------------|--------------------|----------------|--------------|--------------|---------------------|
| | # | \$ | Average | # | \$ | Average | # | # | \$ |
| Non-Taxable | 747 | (92,643,970) | (124,021) | 0 | 0 | 0 | 1,309 | 2,056 | (92,643,970) |
| Under \$500,000 | 198 | (1,441,641) | (7,281) | 180 | 231,747 | 1,287 | 87 | 465 | (1,209,894) |
| \$500,000 to \$999,999 | 66 | (807,689) | (12,238) | 41 | 304,741 | 7,433 | 14 | 121 | (502,948) |
| \$1,000,000 to \$4,999,999 | 219 | (4,385,288) | (20,024) | 142 | 1,404,244 | 9,889 | 42 | 403 | (2,981,044) |
| \$5,000,000 to \$9,999,999 | 112 | (3,920,266) | (35,002) | 79 | 2,068,955 | 26,189 | 15 | 206 | (1,851,311) |
| \$10,000,000 to \$24,999,999 | 175 | (8,715,826) | (49,805) | 156 | 5,663,412 | 36,304 | 21 | 352 | (3,052,414) |
| \$25,000,000 to \$99,999,999 | 250 | (22,850,837) | (91,403) | 214 | 15,343,208 | 71,697 | 28 | 492 | (7,507,629) |
| \$100,000,000 to \$249,999,999 | 96 | (15,773,615) | (164,308) | 127 | 24,776,858 | 195,093 | 7 | 230 | 9,003,243 |
| \$250,000,000 to \$499,999,999 | 38 | (17,141,991) | (451,105) | 87 | 19,836,531 | 228,006 | 4 | 129 | 2,694,540 |
| \$500,000,000 to \$999,999,999 | 24 | (45,619,555) | (1,900,815) | 52 | 35,954,823 | 691,439 | } 5 | } 203 | (9,664,732) |
| \$1,000,000,000 and Over | 45 | (47,155,808) | (1,047,907) | 77 | 100,958,854 | 1,311,154 | | | 53,803,045 |
| Total | 1,970 | (260,456,487) | (132,211) | 1,155 | 206,543,373 | 178,825 | 1,532 | 4,657 | (53,913,114) |

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Tax Year 2008 Estimated Impact of Combined Reporting
Finnigan Method of Apportionment
 By Group Maryland Modified Income

| Group Maryland Modified Income | Winners | | | Losers | | | No Change | Total | |
|-----------------------------------|--------------|----------------------|------------------|--------------|--------------------|----------------|--------------|--------------|---------------------|
| | # | \$ | Average | # | \$ | Average | # | # | \$ |
| Non-Taxable | 747 | (92,643,970) | (124,021) | 0 | 0 | 0 | 1,309 | 2,056 | (92,643,970) |
| Under \$500,000 | 196 | (1,440,441) | (7,349) | 187 | 235,290 | 1,258 | 82 | 465 | (1,205,151) |
| \$500,000 to \$999,999 | 65 | (796,012) | (12,246) | 46 | 331,643 | 7,210 | 10 | 121 | (464,369) |
| \$1,000,000 to \$4,999,999 | 211 | (4,142,374) | (19,632) | 154 | 1,477,563 | 9,595 | 38 | 403 | (2,664,811) |
| \$5,000,000 to \$9,999,999 | 103 | (3,888,853) | (37,756) | 90 | 2,209,668 | 24,552 | 13 | 206 | (1,679,185) |
| \$10,000,000 to \$24,999,999 | 163 | (8,523,367) | (52,291) | 175 | 6,081,763 | 34,753 | 14 | 352 | (2,441,604) |
| \$25,000,000 to \$99,999,999 | 220 | (22,187,014) | (100,850) | 256 | 18,036,533 | 70,455 | 16 | 492 | (4,150,481) |
| \$100,000,000 to \$249,999,999 | 90 | (14,774,655) | (164,163) | 135 | 27,709,322 | 205,254 | 5 | 230 | 12,934,667 |
| \$250,000,000 to \$499,999,999 | 33 | (16,818,270) | (509,645) | 94 | 23,783,609 | 253,017 | } 5 | } 332 | 6,965,340 |
| \$500,000,000 to \$999,999,999 | 22 | (44,772,034) | (2,035,092) | 55 | 40,340,444 | 733,463 | | | (4,431,590) |
| \$1,000,000,000 and Over | 41 | (44,528,321) | (1,086,057) | 82 | 118,895,640 | 1,449,947 | | | 74,367,319 |
| Total | 1,891 | (254,515,311) | (134,593) | 1,274 | 239,101,475 | 187,678 | 1,492 | 4,657 | (15,413,835) |

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Tax Year 2008 Estimated Impact of Combined Reporting

Joyce Method of Apportionment

By Predominant Industry, Measured by Payroll, of Group

| Industry | Winners | | | Losers | | | No Change | Total | |
|--|--------------|----------------------|------------------|--------------|--------------------|----------------|--------------|--------------|---------------------|
| | # | \$ | Average | # | \$ | Average | | # | \$ |
| Agriculture | 5 | (51,178) | (10,236) | 3 | 143,874 | 47,958 | 5 | 13 | 92,696 |
| Mining | 11 | (199,343) | (18,122) | 9 | 534,824 | 59,425 | 4 | 24 | 335,481 |
| Utilities | 29 | (27,123,130) | (935,280) | 12 | 1,156,459 | 96,372 | 15 | 56 | (25,966,671) |
| Construction | 82 | (1,581,779) | (19,290) | 43 | 1,811,225 | 42,122 | 62 | 187 | 229,446 |
| Manufacturing | 488 | (40,207,934) | (82,393) | 277 | 44,955,025 | 162,293 | 330 | 1,095 | 4,747,091 |
| Wholesale Trade | 141 | (7,129,772) | (50,566) | 112 | 18,499,024 | 165,170 | 82 | 335 | 11,369,252 |
| Retail Trade | 116 | (12,132,568) | (104,591) | 84 | 31,468,183 | 374,621 | 91 | 291 | 19,335,615 |
| Transportation and Warehousing | 93 | (6,949,450) | (74,725) | 45 | 1,358,095 | 30,180 | 44 | 182 | (5,591,355) |
| Information | 114 | (19,896,229) | (174,528) | 68 | 20,220,815 | 297,365 | 76 | 258 | 324,587 |
| Finance and Insurance | 189 | (44,368,265) | (234,753) | 98 | 18,921,466 | 193,076 | 183 | 470 | (25,446,799) |
| Real Estate and Rental and Leasing | 97 | (9,336,477) | (96,252) | 54 | 4,893,397 | 90,618 | 174 | 325 | (4,443,080) |
| Professional, Scientific and Technical Services | 267 | (26,020,577) | (97,455) | 153 | 31,877,434 | 208,349 | 216 | 636 | 5,856,857 |
| Management of Companies | 107 | (46,523,737) | (434,801) | 63 | 8,863,034 | 140,683 | 83 | 253 | (37,660,703) |
| Admin. Support, Waste Mgmt., and Remediation Svcs. | 77 | (2,913,476) | (37,837) | 41 | 6,849,646 | 167,065 | 32 | 150 | 3,936,170 |
| Educational Services | 16 | (2,908,844) | (181,803) | 9 | 352,232 | 39,137 | 7 | 32 | (2,556,612) |
| Health Care and Social Assistance | 52 | (6,444,816) | (123,939) | 26 | 4,900,001 | 188,462 | 46 | 124 | (1,544,815) |
| Arts, Entertainment, and Recreation | 11 | (129,539) | (11,776) | 7 | 83,457 | 11,922 | 13 | 31 | (46,082) |
| Accommodation and Food Services | 37 | (5,556,604) | (150,178) | 28 | 7,200,039 | 257,144 | 32 | 97 | 1,643,435 |
| Other Services | 29 | (812,249) | (28,009) | 20 | 2,042,808 | 102,140 | 29 | 78 | 1,230,559 |
| Misreported | 9 | (170,521) | (18,947) | 3 | 412,336 | 137,445 | 8 | 20 | 241,815 |
| Total | 1,970 | (260,456,487) | (132,211) | 1,155 | 206,543,373 | 178,825 | 1,532 | 4,657 | (53,913,114) |

Tax Year 2008 Estimated Distributional Impact of Combined Reporting

Joyce Method of Apportionment

By Predominant Industry, Measured by Payroll, of Group

| Industry | Winners | | Losers | | No Change | Total | |
|--|-------------|---------------|---------------|---------------|---------------|---------------|--------------|
| | # | \$ | # | \$ | # | # | \$ Change |
| Agriculture | 0.3% | 0.0% | 0.3% | 0.1% | 0.3% | 0.3% | 26.2% |
| Mining | 0.6% | 0.1% | 0.8% | 0.3% | 0.3% | 0.5% | 87.3% |
| Utilities | 1.5% | 10.4% | 1.0% | 0.6% | 1.0% | 1.2% | -87.9% |
| Construction | 4.2% | 0.6% | 3.7% | 0.9% | 4.0% | 4.0% | 2.1% |
| Manufacturing | 24.8% | 15.4% | 24.0% | 21.8% | 21.5% | 23.5% | 3.2% |
| Wholesale Trade | 7.2% | 2.7% | 9.7% | 9.0% | 5.4% | 7.2% | 37.1% |
| Retail Trade | 5.9% | 4.7% | 7.3% | 15.2% | 5.9% | 6.2% | 34.5% |
| Transportation and Warehousing | 4.7% | 2.7% | 3.9% | 0.7% | 2.9% | 3.9% | -31.1% |
| Information | 5.8% | 7.6% | 5.9% | 9.8% | 5.0% | 5.5% | 0.8% |
| Finance and Insurance | 9.6% | 17.0% | 8.5% | 9.2% | 11.9% | 10.1% | -20.5% |
| Real Estate and Rental and Leasing | 4.9% | 3.6% | 4.7% | 2.4% | 11.4% | 7.0% | -26.5% |
| Professional, Scientific and Technical Services | 13.6% | 10.0% | 13.2% | 15.4% | 14.1% | 13.7% | 7.6% |
| Management of Companies | 5.4% | 17.9% | 5.5% | 4.3% | 5.4% | 5.4% | -57.1% |
| Admin. Support, Waste Mgmt., and Remediation Svcs. | 3.9% | 1.1% | 3.5% | 3.3% | 2.1% | 3.2% | 44.2% |
| Educational Services | 0.8% | 1.1% | 0.8% | 0.2% | 0.5% | 0.7% | -38.7% |
| Health Care and Social Assistance | 2.6% | 2.5% | 2.3% | 2.4% | 3.0% | 2.7% | -13.5% |
| Arts, Entertainment, and Recreation | 0.6% | 0.0% | 0.6% | 0.0% | 0.8% | 0.7% | -17.1% |
| Accommodation and Food Services | 1.9% | 2.1% | 2.4% | 3.5% | 2.1% | 2.1% | 15.1% |
| Other Services | 1.5% | 0.3% | 1.7% | 1.0% | 1.9% | 1.7% | 44.9% |
| Misreported | 0.5% | 0.1% | 0.3% | 0.2% | 0.5% | 0.4% | 14.5% |
| Total | 100% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | -8.2% |

* All percentages are a share of that respective column's total, except the Total \$ Change column which is the estimated change in that industry's total liability

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Tax Year 2008 Estimated Impact of Combined Reporting

Finnigan Method of Apportionment

By Predominant Industry, Measured by Payroll, of Group

| Industry | Winners | | | Losers | | | No Change | Total | |
|--|--------------|----------------------|------------------|--------------|--------------------|----------------|--------------|--------------|---------------------|
| | # | \$ | Average | # | \$ | Average | | # | \$ |
| Agriculture | 5 | (51,178) | (10,236) | 3 | 143,896 | 47,965 | 5 | 13 | 92,718 |
| Mining | 10 | (198,760) | (19,876) | 9 | 863,460 | 95,940 | 5 | 24 | 664,700 |
| Utilities | 29 | (27,088,183) | (934,075) | 12 | 1,156,459 | 96,372 | 15 | 56 | (25,931,724) |
| Construction | 79 | (1,531,021) | (19,380) | 47 | 1,858,976 | 39,553 | 61 | 187 | 327,955 |
| Manufacturing | 448 | (37,781,148) | (84,333) | 333 | 62,089,279 | 186,454 | 314 | 1,095 | 24,308,131 |
| Wholesale Trade | 134 | (6,684,253) | (49,882) | 120 | 20,022,842 | 166,857 | 81 | 335 | 13,338,589 |
| Retail Trade | 114 | (12,064,447) | (105,828) | 90 | 32,316,890 | 359,077 | 87 | 291 | 20,252,444 |
| Transportation and Warehousing | 90 | (6,911,992) | (76,800) | 49 | 1,454,539 | 29,684 | 43 | 182 | (5,457,453) |
| Information | 111 | (18,790,790) | (169,286) | 72 | 23,819,003 | 330,819 | 75 | 258 | 5,028,213 |
| Finance and Insurance | 186 | (43,899,569) | (236,019) | 107 | 21,559,650 | 201,492 | 177 | 470 | (22,339,918) |
| Real Estate and Rental and Leasing | 96 | (9,326,874) | (97,155) | 58 | 4,918,506 | 84,802 | 171 | 325 | (4,408,368) |
| Professional, Scientific and Technical Services | 263 | (25,826,822) | (98,201) | 160 | 35,811,841 | 223,824 | 213 | 636 | 9,985,019 |
| Management of Companies | 97 | (45,940,102) | (473,609) | 75 | 10,361,865 | 138,158 | 81 | 253 | (35,578,237) |
| Admin. Support, Waste Mgmt., and Remediation Svcs. | 76 | (2,900,641) | (38,166) | 42 | 7,455,134 | 177,503 | 32 | 150 | 4,554,493 |
| Educational Services | 15 | (2,903,379) | (193,559) | 10 | 354,933 | 35,493 | 7 | 32 | (2,548,446) |
| Health Care and Social Assistance | 52 | (6,397,958) | (123,038) | 26 | 5,030,696 | 193,488 | 46 | 124 | (1,367,262) |
| Arts, Entertainment, and Recreation | 11 | (128,786) | (11,708) | 8 | 83,500 | 10,438 | 12 | 31 | (45,286) |
| Accommodation and Food Services | 37 | (5,547,568) | (149,934) | 28 | 7,214,861 | 257,674 | 32 | 97 | 1,667,293 |
| Other Services | 29 | (397,979) | (13,723) | 22 | 2,172,563 | 98,753 | 27 | 78 | 1,774,584 |
| Misreported | 9 | (143,862) | (15,985) | 3 | 412,582 | 137,527 | 8 | 20 | 268,720 |
| Total | 1,891 | (254,515,311) | (134,593) | 1,274 | 239,101,475 | 187,678 | 1,492 | 4,657 | (15,413,835) |

Tax Year 2008 Estimated Distributional Impact of Combined Reporting

Finnigan Method of Apportionment

By Predominant Industry, Measured by Payroll, of Group

| Industry | Winners | | Losers | | No Change | Total | |
|--|-------------|---------------|---------------|---------------|---------------|---------------|--------------|
| | # | \$ | # | \$ | # | # | \$ |
| Agriculture | 0.3% | 0.0% | 0.2% | 0.1% | 0.3% | 0.3% | 26.2% |
| Mining | 0.5% | 0.1% | 0.7% | 0.4% | 0.3% | 0.5% | 172.9% |
| Utilities | 1.5% | 10.6% | 0.9% | 0.5% | 1.0% | 1.2% | -87.7% |
| Construction | 4.2% | 0.6% | 3.7% | 0.8% | 4.1% | 4.0% | 3.0% |
| Manufacturing | 23.7% | 14.8% | 26.1% | 26.0% | 21.0% | 23.5% | 16.4% |
| Wholesale Trade | 7.1% | 2.6% | 9.4% | 8.4% | 5.4% | 7.2% | 43.5% |
| Retail Trade | 6.0% | 4.7% | 7.1% | 13.5% | 5.8% | 6.2% | 36.1% |
| Transportation and Warehousing | 4.8% | 2.7% | 3.8% | 0.6% | 2.9% | 3.9% | -30.4% |
| Information | 5.9% | 7.4% | 5.7% | 10.0% | 5.0% | 5.5% | 12.4% |
| Finance and Insurance | 9.8% | 17.2% | 8.4% | 9.0% | 11.9% | 10.1% | -18.0% |
| Real Estate and Rental and Leasing | 5.1% | 3.7% | 4.6% | 2.1% | 11.5% | 7.0% | -26.3% |
| Professional, Scientific and Technical Services | 13.9% | 10.1% | 12.6% | 15.0% | 14.3% | 13.7% | 12.9% |
| Management of Companies | 5.1% | 18.1% | 5.9% | 4.3% | 5.4% | 5.4% | -54.0% |
| Admin. Support, Waste Mgmt., and Remediation Svcs. | 4.0% | 1.1% | 3.3% | 3.1% | 2.1% | 3.2% | 51.1% |
| Educational Services | 0.8% | 1.1% | 0.8% | 0.1% | 0.5% | 0.7% | -38.6% |
| Health Care and Social Assistance | 2.7% | 2.5% | 2.0% | 2.1% | 3.1% | 2.7% | -12.0% |
| Arts, Entertainment, and Recreation | 0.6% | 0.1% | 0.6% | 0.0% | 0.8% | 0.7% | -16.8% |
| Accommodation and Food Services | 2.0% | 2.2% | 2.2% | 3.0% | 2.1% | 2.1% | 15.4% |
| Other Services | 1.5% | 0.2% | 1.7% | 0.9% | 1.8% | 1.7% | 64.7% |
| Misreported | 0.5% | 0.1% | 0.2% | 0.2% | 0.5% | 0.4% | 16.1% |
| Total | 100% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | -2.3% |

* All percentages are a share of that respective column's total, except the Total \$ Change column which is the estimated change in that industry's total liability

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