



**Maryland Chamber of Commerce**

## **Legislative Position**

**SB 354  
OPPOSE**

**Budget &  
Taxation  
Committee**

**2/24/10**

### **SB 354**

#### **Corporate Income – Combined Reporting - Pension Sustainability Trust Fund**

**Bill Summary:** This bill would impose a system of mandatory unitary combined reporting for corporate income taxes effective next year. The proceeds of these tax levies would be dedicated to fund state employee and teacher pensions.

**Chamber Position:** The Maryland Chamber of Commerce opposes this bill. While we commend the sponsor for focusing on the serious problem of state employee and teacher pension funding, the proposed tax levies in this bill are ill-timed and ill-advised.

We oppose the bill for the following reasons:

- **Premature Action on Combined Reporting** – The Governor and General Assembly created the Maryland Business Tax Reform Commission during the 2007 special session and charged that group with the responsibility of evaluating the merits of combined reporting and other changes to Maryland’s business tax structure. The Commission has worked diligently for the past year and will provide recommendations in December of 2010. We know from preliminary data that combined reporting would cause massive shifts in tax liability between businesses, with 2,418 businesses paying \$393 million *more* in taxes and 1,906 businesses paying \$223 million *less* in taxes. The fact that many businesses pay less in taxes demonstrates that the tax change is not a “loophole closer.” (See fiscal note page 7.) The Commission should be allowed to evaluate another year of tax data and report back this December without having this issue prejudged by the General Assembly.
- **The Bill is Unworkable** – The bill requires the Comptroller to estimate the additional corporate income tax attributable to combined reporting by March 1<sup>st</sup> annually and transfer those revenues to the Pension Sustainability Trust Fund. With over 6,200 corporate groups doing business in Maryland, it is highly unlikely that the Comptroller would devote the resources to estimate what the tax liability for those entities would have been under separate accounting (current law) versus combined reporting (this bill). The data simply would not exist to make a meaningful calculation. The Comptroller’s Office confirms the difficulty of reliably estimating these revenues on page 9 of the fiscal note.

(over)

- **Inappropriate Funding Source for Pensions** – Corporate income taxes are an inherently volatile source of revenues that are inappropriate for funding the large and growing costs of state employee and teacher pensions. The FY 11 state budget proposes \$1.3 billion (all funds) in spending for state employee and teacher pensions, a growth of over 15% from FY 10. The pension systems also have poor investment performance, an aging workforce, and an unfunded liability of over \$17 billion - all of which will drive future budget demands. The revenues generated by this bill are not sufficient to address the financial needs of the pension systems as currently designed.
- **Pension Costs Must be Contained** - Employers should not be asked to fund a level of pension benefits for public employees that they cannot afford to provide to their own employees. Most private employers long ago ended defined benefit pension plans, instituting defined contribution plans. The state should likewise transition away from the unsustainable cost of defined benefit pensions for state employees. State contributions for teacher pensions should also be capped, with a cost share implemented with counties or the local boards of education that set teacher salaries.

For these reasons, we urge an unfavorable report for this bill.

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