



**Peter Franchot**  
*Comptroller*

**Andrew M. Schaufele**  
*Director, Bureau of Revenue  
Estimates*

March 1, 2013

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

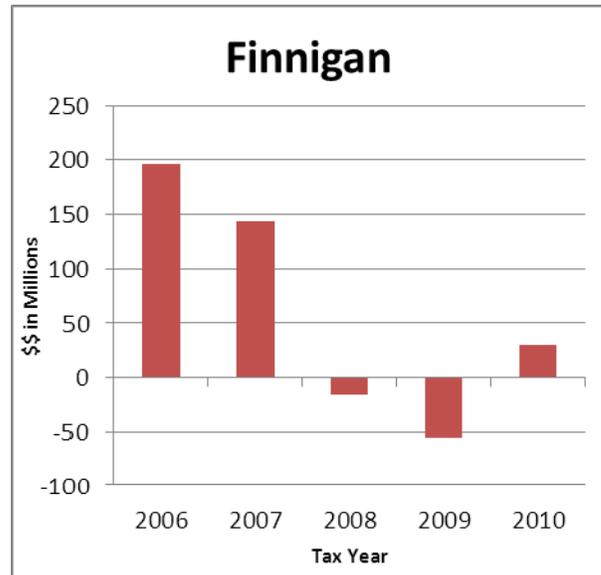
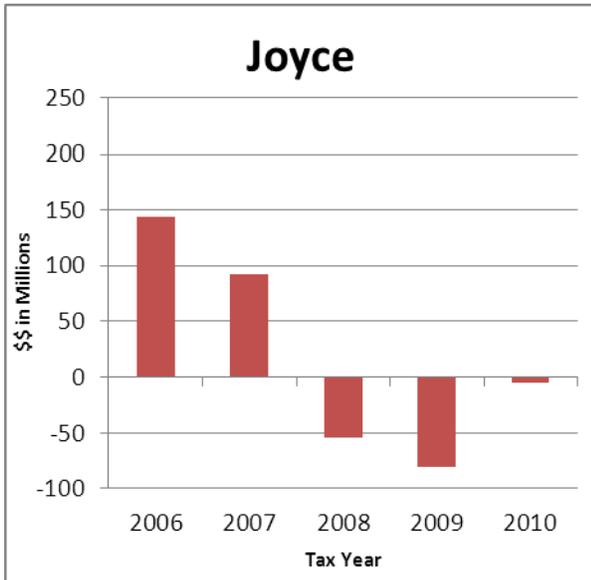
Dear Governor, President and Speaker:

This report required by Chapter 3 of the 2007 Special Session of the General Assembly, as modified by Chapter 177 of the 2008 Session, provides information for 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 2010, 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 2010 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; and
- it is assumed that the introduction of combined reporting would not have affected taxpayer behavior.

Tax year 2010 reports show that under the Joyce method of apportionment, corporate income tax revenues would have been \$4.5 million lower than they actually were. Under Finnigan, revenues would have increased \$30.1 million. The tax liability of corporate groups in the health care and social assistance, transportation and warehousing, and utility industries would have been almost \$40.9 million lower under Joyce, while the retail, professional, scientific, and technical services, and administrative support, waste management, and remediation services industries would have paid about \$37.7 million more in tax. The attached tables provide detail by both size of corporate group and by industry for tax year 2010.



Prior to tax year 2010, we observed that the revenue effect of combined reporting could be either positive or negative, and now we see that the impact could be roughly revenue neutral as well. The time frame in the above chart includes periods of extraordinary economic expansion and contraction. For the above tax years, the amount of corporate income tax collected under current law, after adjusting for an extraordinary transaction and the tax rate change, declined in every year except 2010. At the national level, between 2006 and 2010, corporate profits as reported by the Bureau of Economic Analysis only declined in 2007 and 2008, and growth rates were much more volatile. While the two series are not directly comparable, largely due to fiscal year accounting, they are generally relatable. The above is evidence that Maryland's corporate tax base is not directly comparable to that of the nation as a whole, and given varying national economic conditions, aggregating activity from other states can have varying impacts on Maryland's base. Also, the profits of separate entities in Maryland may provide a larger base for losses of other members, even if all of the other members have nexus with Maryland.

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 income back to the state in which the goods were produced or from which they were shipped.

The tax year 2010 corporate reporting data indicate that 144 entities would have had \$4.6 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 \$15.7 million higher, with 94 entities paying higher tax. If sales to the federal

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government were also thrown back to Maryland, an additional \$4.2 billion would have been thrown back, and corporate income tax revenues would have increased a further \$28.1 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 \$1.5 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, 2007, 2008, and 2009 was \$21.5 million, \$6.4 million, \$84.7 million, and \$14.3 million, respectively, demonstrating the volatility.

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,



Andrew M. Schaufele  
Director, Bureau of Revenue Estimates

cc. Honorable Peter Franchot  
Len Foxwell  
David Roose

**Tax Year 2010 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	568	(88,686,084)	(156,137)	0	0	0	882	1,450	(88,686,084)
Under \$500,000	134	(867,339)	(6,473)	140	178,812	1,277	64	338	(688,527)
\$500,000 to \$999,999	37	(392,041)	(10,596)	25	145,227	5,809	11	73	(246,813)
\$1,000,000 to \$4,999,999	144	(3,329,325)	(23,120)	134	1,015,022	7,575	27	305	(2,314,303)
\$5,000,000 to \$9,999,999	112	(7,819,883)	(69,820)	87	1,416,369	16,280	12	211	(6,403,514)
\$10,000,000 to \$24,999,999	120	(5,227,348)	(43,561)	138	2,656,235	19,248	20	278	(2,571,113)
\$25,000,000 to \$99,999,999	201	(16,237,907)	(80,786)	192	11,760,834	61,254	17	410	(4,477,073)
\$100,000,000 to \$249,999,999	90	(15,506,521)	(172,295)	126	18,715,591	148,536	7	223	3,209,070
\$250,000,000 to \$499,999,999	51	(24,059,152)	(471,748)	84	17,345,100	206,489	6	141	(6,714,052)
\$500,000,000 to \$999,999,999	25	(7,023,604)	(280,944)	60	44,058,869	734,314	3	88	37,035,266
\$1,000,000,000 and Over	35	(38,785,906)	(1,108,169)	76	106,184,511	1,397,165	1	112	67,398,605
<b>Total</b>	<b>1,517</b>	<b>(207,935,110)</b>	<b>(137,070)</b>	<b>1,062</b>	<b>203,476,571</b>	<b>191,598</b>	<b>1,050</b>	<b>3,629</b>	<b>(4,458,539)</b>

*Bureau of Revenue Estimates*  
*Comptroller of Maryland*  
March 1, 2013

**Tax Year 2010 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	568	(88,686,084)	(156,137)	0	0	0	882	1,450	(88,686,084)
Under \$500,000	132	(865,955)	(6,560)	141	179,208	1,271	65	338	(686,748)
\$500,000 to \$999,999	35	(389,999)	(11,143)	27	152,612	5,652	11	73	(237,388)
\$1,000,000 to \$4,999,999	137	(3,318,075)	(24,220)	145	1,048,910	7,234	23	305	(2,269,164)
\$5,000,000 to \$9,999,999	106	(7,768,528)	(73,288)	97	1,649,770	17,008	8	211	(6,118,759)
\$10,000,000 to \$24,999,999	113	(5,149,487)	(45,571)	149	3,036,617	20,380	16	278	(2,112,870)
\$25,000,000 to \$99,999,999	176	(15,560,474)	(88,412)	223	13,785,451	61,818	11	410	(1,775,023)
\$100,000,000 to \$249,999,999	80	(14,911,568)	(186,395)	139	22,604,543	162,623	4	223	7,692,975
\$250,000,000 to \$499,999,999	47	(22,536,757)	(479,505)	92	21,558,947	234,336	2	141	(977,810)
\$500,000,000 to \$999,999,999	22	(6,774,425)	(307,928)	64	49,493,867	773,342	2	88	42,719,441
\$1,000,000,000 and Over	35	(37,050,170)	(1,058,576)	76	119,562,435	1,573,190	1	112	82,512,266
<b>Total</b>	<b>1,451</b>	<b>(203,011,522)</b>	<b>(139,911)</b>	<b>1,153</b>	<b>233,072,359</b>	<b>202,144</b>	<b>1,025</b>	<b>3,629</b>	<b>30,060,837</b>

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**Tax Year 2010 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	4	(63,657)	(15,914)	5	3,095	619	1	10	(60,561)
Mining	10	(1,479,275)	(147,928)	6	189,333	31,556	6	22	(1,289,942)
Utilities	21	(24,881,739)	(1,184,845)	6	41,083	6,847	13	40	(24,840,656)
Construction	53	(1,567,712)	(29,579)	24	1,142,572	47,607	58	135	(425,140)
Manufacturing	388	(43,643,988)	(112,485)	275	38,475,965	139,913	201	864	(5,168,023)
Wholesale Trade	115	(12,217,186)	(106,236)	106	15,247,498	143,844	57	278	3,030,312
Retail Trade	87	(9,903,879)	(113,838)	89	26,714,817	300,166	53	229	16,810,938
Transportation and Warehousing	73	(11,156,503)	(152,829)	34	1,710,445	50,307	32	139	(9,446,058)
Information	91	(20,076,304)	(220,619)	63	20,415,656	324,058	66	220	339,352
Finance and Insurance	147	(29,568,268)	(201,145)	112	31,126,435	277,915	125	384	1,558,167
Real Estate and Rental and Leasing	76	(6,531,272)	(85,938)	38	1,051,802	27,679	116	230	(5,479,470)
Professional, Scientific and Technical Services	190	(20,594,002)	(108,389)	137	33,866,780	247,203	141	468	13,272,778
Management of Companies	88	(9,766,309)	(110,981)	45	10,690,764	237,573	78	211	924,455
Admin. Support, Waste Mgmt., and Remediation Svcs.	50	(2,764,081)	(55,282)	42	10,377,275	247,078	26	118	7,613,194
Educational Services	18	(1,974,813)	(109,712)	6	1,395,898	232,650	7	31	(578,915)
Health Care and Social Assistance	48	(7,958,542)	(165,803)	24	1,392,036	58,002	15	87	(6,566,506)
Arts, Entertainment, and Recreation	11	(268,520)	(24,411)	4	240,589	60,147	9	24	(27,931)
Accommodation and Food Services	28	(3,133,746)	(111,920)	24	4,696,486	195,687	25	77	1,562,740
Other Services	16	(373,416)	(23,338)	19	2,428,460	127,814	18	53	2,055,044
Misreported	3	(11,899)	(3,966)	3	2,269,583	756,528	3	9	2,257,684
<b>Total</b>	<b>1,517</b>	<b>(207,935,110)</b>	<b>(137,070)</b>	<b>1,062</b>	<b>203,476,571</b>	<b>191,598</b>	<b>1,050</b>	<b>3,629</b>	<b>(4,458,539)</b>

**Tax Year 2010 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%	0.5%	0.0%	0.1%	0.3%	-37.5%
Mining	0.7%	0.7%	0.6%	0.1%	0.6%	0.6%	-82.0%
Utilities	1.4%	12.0%	0.6%	0.0%	1.2%	1.1%	-78.2%
Construction	3.5%	0.8%	2.3%	0.6%	5.5%	3.7%	-7.2%
Manufacturing	25.6%	21.0%	25.9%	18.9%	19.1%	23.8%	-3.4%
Wholesale Trade	7.6%	5.9%	10.0%	7.5%	5.4%	7.7%	7.7%
Retail Trade	5.7%	4.8%	8.4%	13.1%	5.0%	6.3%	25.4%
Transportation and Warehousing	4.8%	5.4%	3.2%	0.8%	3.0%	3.8%	-37.1%
Information	6.0%	9.7%	5.9%	10.0%	6.3%	6.1%	0.8%
Finance and Insurance	9.7%	14.2%	10.5%	15.3%	11.9%	10.6%	1.5%
Real Estate and Rental and Leasing	5.0%	3.1%	3.6%	0.5%	11.0%	6.3%	-35.8%
Professional, Scientific and Technical Services	12.5%	9.9%	12.9%	16.6%	13.4%	12.9%	18.3%
Management of Companies	5.8%	4.7%	4.2%	5.3%	7.4%	5.8%	3.7%
Admin. Support, Waste Mgmt., and Remediation Svcs.	3.3%	1.3%	4.0%	5.1%	2.5%	3.3%	60.3%
Educational Services	1.2%	0.9%	0.6%	0.7%	0.7%	0.9%	-6.9%
Health Care and Social Assistance	3.2%	3.8%	2.3%	0.7%	1.4%	2.4%	-45.2%
Arts, Entertainment, and Recreation	0.7%	0.1%	0.4%	0.1%	0.9%	0.7%	-4.5%
Accommodation and Food Services	1.8%	1.5%	2.3%	2.3%	2.4%	2.1%	21.4%
Other Services	1.1%	0.2%	1.8%	1.2%	1.7%	1.5%	67.6%
Misreported	0.2%	0.0%	0.3%	1.1%	0.3%	0.2%	1371.0%
<b>Total</b>	<b>100%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-0.7%</b>

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

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**Tax Year 2010 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	4	(63,657)	(15,914)	5	57,403	11,481	1	10	(6,254)
Mining	10	(1,478,934)	(147,893)	6	220,531	36,755	6	22	(1,258,403)
Utilities	21	(24,881,739)	(1,184,845)	6	41,083	6,847	13	40	(24,840,656)
Construction	53	(1,564,827)	(29,525)	24	1,143,406	47,642	58	135	(421,421)
Manufacturing	345	(41,362,755)	(119,892)	330	53,534,516	162,226	189	864	12,171,761
Wholesale Trade	113	(12,155,988)	(107,575)	109	15,633,617	143,428	56	278	3,477,629
Retail Trade	87	(9,861,647)	(113,352)	91	27,691,124	304,298	51	229	17,829,478
Transportation and Warehousing	71	(11,141,351)	(156,920)	36	1,821,806	50,606	32	139	(9,319,546)
Information	88	(19,782,509)	(224,801)	69	26,506,528	384,153	63	220	6,724,019
Finance and Insurance	145	(29,168,166)	(201,160)	116	35,115,659	302,721	123	384	5,947,493
Real Estate and Rental and Leasing	75	(6,530,573)	(87,074)	39	1,081,223	27,724	116	230	(5,449,350)
Professional, Scientific and Technical Services	185	(20,261,434)	(109,521)	143	35,564,192	248,701	140	468	15,302,758
Management of Companies	82	(8,888,024)	(108,391)	55	11,798,106	214,511	74	211	2,910,081
Admin. Support, Waste Mgmt., and Remediation Svcs.	48	(2,746,773)	(57,224)	44	10,413,649	236,674	26	118	7,666,876
Educational Services	18	(1,881,943)	(104,552)	6	1,397,045	232,841	7	31	(484,898)
Health Care and Social Assistance	48	(7,462,756)	(155,474)	24	1,394,619	58,109	15	87	(6,068,137)
Arts, Entertainment, and Recreation	11	(268,491)	(24,408)	4	240,589	60,147	9	24	(27,902)
Accommodation and Food Services	28	(3,125,745)	(111,634)	24	4,713,864	196,411	25	77	1,588,118
Other Services	16	(372,310)	(23,269)	19	2,433,815	128,096	18	53	2,061,505
Misreported	3	(11,899)	(3,966)	3	2,269,583	756,528	3	9	2,257,684
<b>Total</b>	<b>1,451</b>	<b>(203,011,522)</b>	<b>(139,911)</b>	<b>1,153</b>	<b>233,072,359</b>	<b>202,144</b>	<b>1,025</b>	<b>3,629</b>	<b>30,060,837</b>

## Tax Year 2010 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%	0.4%	0.0%	0.1%	0.3%	-3.9%
Mining	0.7%	0.7%	0.5%	0.1%	0.6%	0.6%	-80.0%
Utilities	1.4%	12.3%	0.5%	0.0%	1.3%	1.1%	-78.2%
Construction	3.7%	0.8%	2.1%	0.5%	5.7%	3.7%	-7.2%
Manufacturing	23.8%	20.4%	28.6%	23.0%	18.4%	23.8%	8.1%
Wholesale Trade	7.8%	6.0%	9.5%	6.7%	5.5%	7.7%	8.9%
Retail Trade	6.0%	4.9%	7.9%	11.9%	5.0%	6.3%	26.9%
Transportation and Warehousing	4.9%	5.5%	3.1%	0.8%	3.1%	3.8%	-36.6%
Information	6.1%	9.7%	6.0%	11.4%	6.1%	6.1%	15.1%
Finance and Insurance	10.0%	14.4%	10.1%	15.1%	12.0%	10.6%	5.6%
Real Estate and Rental and Leasing	5.2%	3.2%	3.4%	0.5%	11.3%	6.3%	-35.6%
Professional, Scientific and Technical Services	12.7%	10.0%	12.4%	15.3%	13.7%	12.9%	21.0%
Management of Companies	5.7%	4.4%	4.8%	5.1%	7.2%	5.8%	11.5%
Admin. Support, Waste Mgmt., and Remediation Svcs.	3.3%	1.4%	3.8%	4.5%	2.5%	3.3%	60.7%
Educational Services	1.2%	0.9%	0.5%	0.6%	0.7%	0.9%	-5.8%
Health Care and Social Assistance	3.3%	3.7%	2.1%	0.6%	1.5%	2.4%	-41.8%
Arts, Entertainment, and Recreation	0.8%	0.1%	0.3%	0.1%	0.9%	0.7%	-4.5%
Accommodation and Food Services	1.9%	1.5%	2.1%	2.0%	2.4%	2.1%	21.8%
Other Services	1.1%	0.2%	1.6%	1.0%	1.8%	1.5%	67.8%
Misreported	0.2%	0.0%	0.3%	1.0%	0.3%	0.2%	1371.0%
<b>Total</b>	<b>100%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>4.8%</b>

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

Bureau of Revenue Estimates  
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