



THE VOICE OF MONTGOMERY COUNTY BUSINESS

**HB 10 TEACHER AND EMPLOYEE PENSION SUSTAINABILITY AND SOLVENCY
TRUST FUND**

**HOUSE WAYS AND MEANS COMMITTEE
FEBRUARY 9, 2010**

OPPOSE

The Montgomery County Chamber of Commerce ("MCCC"), as the voice of Montgomery County business, **strongly opposes HB 10:** (i) requiring corporations which are part of a combined group to file corporate income tax under the combined reporting method and apportion income to Maryland based on the three-factor formula (property, payroll and sales), beginning tax year (TY) 2011; (ii) making permanent the 6.75% income tax rates on millionaires due to expire in TY 2010; and (iii) directing these revenues to finance State employees/teachers' pensions.

Combined Reporting. The Montgomery County Chamber of Commerce continues to oppose restructuring the corporate income tax to impose combined reporting in Maryland because of its negative impact on corporate headquartered companies; the majority of which are located in Montgomery County. The Maryland Business Tax Reform Commission was created during the 2007 Special Session to review and evaluate the State's current business tax structure and make specific recommendations for changes, including the imposition of combined reporting. Any action prior to the Commission's final report due December 15, 2011 is premature. The impact of the recession on corporate profits is unlikely to produce any net increase in revenues for the State under combined reporting for the foreseeable future. Businesses are struggling and may struggle for some time and we would urge the State not to make dramatic changes in its tax policy. If combined reporting were the law today, it is more likely that multi-state companies would be importing substantial losses, rather than profits, into Maryland for purposes of tax liability under a system of combined reporting.

High Income Tax. High income tax rates (combined with local income tax rates) continue to be a vulnerability in attracting corporate headquarters to Maryland compared to neighboring jurisdictions in Northern Virginia. Under any measure, Maryland ranks as one of the top three highest income tax rate states in the nation; not a favorable ranking in the eyes of economic development professionals. Montgomery County is disproportionately dependent upon high income taxpayers which includes Subchapter S corporations (partnerships and other small businesses). Therefore, the permanent extension of the 6.75% income tax rate encourages this population, for tax purposes, to claim residency outside of Maryland. Legislative leaders, in the face of business opposition during the 2007 Session, insisted that the high income tax was only temporary and would "sunset" after TY 2010, as was the case in the early 1990's. We took them at their word.

State Employees' Pension Liability Costs. The business community is being asked to finance the unsustainable costs of fringe benefits provided to State employees that businesses have long abandoned for their own employees because they are unaffordable. The State would be well advised to reform its salary and benefits structure.

For these reasons, we strongly request an **unfavorable report on HB 10.**

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