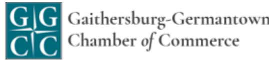

Senate Bill 321 -- *Budget Reconciliation and Financing Act of 2025*
Senate Budget and Taxation Committee
February 28, 2025
Oppose

On behalf of the Gaithersburg-Germantown Chamber of Commerce, Greater Bethesda Chamber of Commerce, Greater Rockville Chamber of Commerce, Greater Silver Spring Chamber of Commerce, and Montgomery County Chamber of Commerce, we oppose Senate Bill 321 -- *Budget Reconciliation and Financing Act of 2025*.

Montgomery County's chambers recognize the challenging decisions our budget leaders face this year. We also appreciate Governor Wes Moore's focus on addressing Maryland's stagnating economic growth. As business leaders in Maryland's largest jurisdiction and a critical economic engine for the State, we share a vision of growing Maryland's economy, creating jobs, and fostering a thriving business community.

However, we are deeply concerned about several tax and fee increases proposed in Senate Bill 321, including a surcharge on capital gains and the elimination of itemized deductions. While these are significant issues, our primary concerns are the implementation of combined reporting and the creation of two higher income tax brackets. These proposals, if enacted, will disproportionately harm Montgomery County, which has already experienced the migration of some of its taxpayers in recent years. Simply put, these tax increases will create a nonpermissive environment for businesses in Montgomery County and across the State.

Implementing Combined Reporting is Bad Policy
Combined reporting has long been opposed by the business community. It is not a "loophole" and remains one of the few competitive economic advantages for Maryland. What is frustrating for the business community is that the combined reporting has been formally rejected multiple times. In fact, combined reporting has been rejected by not one, but two separate bipartisan tax working groups in recent years.

In 2010, the Maryland Business Tax Reform Commission (MBTRC), which was created to evaluate the State's business tax structure, was explicitly directed to review whether to implement combined reporting. In its recommendation, MBRTC recommended against combined reporting in Maryland**.** The Commission's final report outlined several reasons for rejecting combined reporting, including:

- **Complexity** – combined reporting is a complex change for taxpayers, tax preparers, and the Comptroller's Office.
- **Shift of Tax Burden** – combined reporting shifts the tax burden, substantially in some cases, among industries and among taxpayers, resulting in winners and losers.
- **Unnecessary** – many of the tax avoidance measures which combined reporting is intended to prevent have already been addressed by the State through the Delaware holding company add back, the captive real estate investment trust (REIT) legislation, and other measures.

- **Increased Volatility** – a Comptroller's study of corporate returns indicated that combined reporting would lead to increased volatility in corporate income tax revenues, already one of the State's most volatile revenue sources.

In 2015, the Maryland Economic Development and Business Climate Commission, also known as the Augustine Commission, issued a report advising against the adoption of combined reporting. The report highlighted that combined reporting "…can create revenue volatility and winners and losers among corporate taxpayers." It further noted that, "Combined reporting can also lead to additional litigation from taxpayers and create additional administrative costs for both taxpayers and the state."

Higher Income Taxes Hurt Small Businesses
This bill also proposes creating a 6.25% tax bracket for those earning at least $500,000, and a 6.5% tax bracket for those earning more than $1 million. While intended to capture more taxes from higher-earning Marylanders, it will also impact small businesses. Virtually every small business entity in Maryland is registered as a limited liability company, sole proprietorship, or S corporation. These entities are taxed using the income tax rate as pass-through entities. Enacting higher income tax rates will disproportionately harm small businesses by increasing their tax burden, reducing their competitiveness due to higher costs, and directly threatening local jobs and growth.

As a united group of business organizations, we appreciate the opportunity to weigh in on these proposals and urge the Maryland General Assembly to reject combined reporting and higher income tax brackets. Focusing on inclusive economic development and creating a more competitive business climate is essential for balancing Maryland's budget through economic growth.

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