

HOUSE BILL 639

Q3

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CF 7lr1999

By: **Delegates Tarlau, Angel, Barron, Fennell, Korman, McCray, Moon, Pena-Melnyk, Platt, Robinson, and Sanchez**

Introduced and read first time: February 1, 2017

Assigned to: Ways and Means

A BILL ENTITLED

1 AN ACT concerning

2 **Corporate Income Tax – Throwback Rule**

3 FOR the purpose of requiring that certain sales of tangible personal property be included
4 in the numerator of the sales factor used for apportioning a corporation's income to
5 the State under certain circumstances; requiring the Comptroller to assess interest
6 and penalties under certain circumstances; providing for the application of this Act;
7 and generally relating to the income tax on corporations.

8 BY repealing and reenacting, with amendments,
9 Article – Tax – General
10 Section 10–402(c)
11 Annotated Code of Maryland
12 (2016 Replacement Volume)

13 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
14 That the Laws of Maryland read as follows:

15 **Article – Tax – General**

16 10–402.

17 (c) (1) Except as provided in paragraph (2) of this subsection, if the trade or
18 business is a unitary business, the part of the corporation's Maryland modified income
19 derived from or reasonably attributable to trade or business carried on in the State shall
20 be determined using a 3–factor apportionment fraction:

21 (i) the numerator of which is the sum of the property factor, the
22 payroll factor, and twice the sales factor; and

23 (ii) the denominator of which is 4.

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 (2) (i) In this paragraph:

2 1. “manufacturing corporation” means a domestic or foreign
3 corporation which is primarily engaged in activities that, in accordance with the North
4 American Industrial Classification System (NAICS), United States Manual, United States
5 Office of Management and Budget, 1997 Edition, would be included in Sector 11, 31, 32, or
6 33; and

7 2. “manufacturing corporation” does not include a refiner, as
8 defined in § 10–101 of the Business Regulation Article.

9 (ii) If a manufacturing corporation carries on its trade or business in
10 and out of the State and the trade or business is a unitary business, the part of the
11 corporation’s Maryland modified income derived from or reasonably attributable to trade
12 or business carried on in the State shall be determined using a single sales factor
13 apportionment formula, by multiplying its Maryland modified income by 100% of the sales
14 factor.

15 (iii) In filing its tax return for each year, a manufacturing corporation
16 shall certify that the NAICS Code reported on its Maryland return is consistent with that
17 reported to other government agencies.

18 (iv) If the Comptroller determines that a corporation has submitted
19 information that incorrectly classifies the corporation as a manufacturing corporation
20 under subparagraph (i) of this paragraph, the Comptroller shall reclassify the corporation
21 in an appropriate manner.

22 (v) The Comptroller, in consultation with the Department of
23 Commerce, shall adopt regulations necessary to carry out the provisions of this subsection.

24 (vi) As part of its tax return for a taxable year beginning after
25 December 31, 2005, but before January 1, 2011, each manufacturing corporation that has
26 more than 25 employees and apportions its income under this paragraph shall submit a
27 report, in the form that the Comptroller requires by regulation, that describes for each
28 taxable year as of the last day of the taxable year the following:

29 1. the difference in tax owed as a result of using the single
30 sales factor apportionment method under this paragraph as compared to the tax owed using
31 the 3–factor double weighted sales factor apportionment method in effect for the last
32 taxable year beginning on or before December 31, 2000;

33 2. volume of sales in the State and worldwide;

34 3. taxable income in the State and worldwide; and

1 **1. IN THAT STATE THE CORPORATION IS SUBJECT TO A**
2 **NET INCOME TAX, FRANCHISE TAX MEASURED BY NET INCOME, FRANCHISE TAX FOR**
3 **THE PRIVILEGE OF DOING BUSINESS, OR CORPORATE STOCK TAX; OR**

4 **2. THAT STATE HAS JURISDICTION TO SUBJECT THE**
5 **TAXPAYER TO A NET INCOME TAX, REGARDLESS OF WHETHER, IN FACT, THE STATE**
6 **IMPOSES A TAX.**

7 SECTION 2. AND BE IT FURTHER ENACTED, That, for a taxable year beginning
8 after December 31, 2016, but before January 1, 2018, notwithstanding §§ 13–602 and
9 13–702 of the Tax – General Article, the Comptroller shall assess interest and penalties
10 under §§ 13–602 and 13–702 of the Tax – General Article if a corporation pays estimated
11 income tax for the taxable year in an amount less than 90% of the tax required to be shown
12 on the corporation’s income tax return for the taxable year.

13 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect July
14 1, 2017, and shall be applicable to all taxable years beginning after December 31, 2016.