

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 171 (Delegate Qi, *et al.*)
 Economic Matters

Corporations and Associations – Annual Reports – Filing Fees

This bill eliminates the annual corporate filing fee for specified business entities, beginning in fiscal 2024, that either (1) file an annual report electronically or (2) do not report any taxable personal property. **The bill takes effect July 1, 2023, and applies to annual reports due on or after April 15, 2024.**

Fiscal Summary

State Effect: General fund revenues decrease by \$66.8 million in FY 2024 and by \$76.9 million in FY 2028. Expenditures are not affected.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(\$66.8)	(\$69.3)	(\$71.8)	(\$74.3)	(\$76.9)
Expenditure	0	0	0	0	0
Net Effect	(\$66.8)	(\$69.3)	(\$71.8)	(\$74.3)	(\$76.9)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses that file an annual report electronically or do not report taxable personal property will no longer be subject to the corporate filing fee.

Analysis

Current Law:

Annual Report and Filing Fees

Business entities in the State are required to file an annual report along with a reporting fee with the State Department of Assessments and Taxation (SDAT) by April 15, regardless of whether the business owns property, generates income, or has conducted business activity in the State during the preceding year. Failure to file the annual report may result in the business entity losing the right to conduct business in Maryland. **Exhibit 1** identifies the amount of the report fee that each legal entity is required to pay.

Exhibit 1 Annual Reporting Fee Requirement

<u>Business Entity</u>	<u>Fee</u>	<u>Business Entity</u>	<u>Fee</u>
Stock Corp	\$300	Domestic Statutory Trust	\$300
Nonstock Corp	0	Foreign Statutory Trust	300
Foreign Insurance Corp	300	Real Estate Investment Trust	300
Foreign Interstate Corp	0	Certified Family Farm	100
Limited Liability Company	300	Sole Proprietorship	0
Limited Liability Partnership	300	General Partnership	0
Limited Partnership	300	Amended Return	0

State Revenues: General fund revenues decrease by \$66.8 million in fiscal 2024 and by \$76.9 million in fiscal 2028, as shown in **Exhibit 2**. This estimate is based on the current general fund revenue forecast for corporate filing fees and assumes that 65% of eligible business entities will file annual reports electronically in fiscal 2024 and increasing to 75% by fiscal 2028. In addition, the estimate assumes that of those persons that do not file electronically, 55% do not report any taxable personal property, and are therefore exempt from paying the filing fee.

Exhibit 2
Annual Report Filing Fee Revenue Decrease
(\$ in Millions)

<u>Fiscal Year</u>	<u>General Fund Forecast</u>	<u>General Fund Revenue Decrease</u>
2024	\$79.3	(\$66.8)
2025	81.3	(69.3)
2026	83.1	(71.8)
2027	85.0	(74.3)
2028	86.8	(76.9)

Source: Board of Revenue Estimates; State Department of Assessments and Taxation; Department of Legislative Services

This estimate also accounts for Chapters 323 and 324 of 2016 that established the Maryland Small Business Retirement Savings Program and Trust that requires specified private-sector employers to make the program available to their employees. The legislation waives the annual filing fee collected by SDAT for a corporation or business entity that participates in the program or otherwise offers a retirement savings arrangement for its employees. The Budget Reconciliation and Financing Act of 2019 delayed the implementation of the program until fiscal 2022. The program, MarylandSaves, began operating in September 2022, and the December 2022 revenue forecast assumes that filing fee revenues will be reduced by approximately 35% beginning in fiscal 2023 as a result of businesses enrolling in the program.

To the extent that variations occur in the number of business entities paying the filing fee and who also file electronically each year, the effect on general fund revenues will vary accordingly.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Department of Legislative Services

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km/hlb

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