

Testimony in Support of HB 366
Legal Division & Private Letter Ruling Procedures
Ways & Means Committee * February 9, 2022

What this bill does

This bill creates a Legal Division within the Office of the Maryland Comptroller to provide private letter rulings and other forms of detailed tax guidance to make it easier for businesses and residents to understand what they owe - and to pay the proper amount.

The legal division would be staffed by a director and at least six attorneys. The bill allows the Office of the Comptroller to develop (through regulation) specific processes related to: a procedure and form for residents to submit requests for a private letter ruling; circumstances under which a private letter ruling can be denied; times and conditions under which a private letter ruling can be revoked; limitations on the applicability of a private letter ruling; and guidelines for publication of private letter rulings online.

Private letter rulings are legally-binding statements issued to taxpayers by the Comptroller on the application of tax laws and regulations to a specific situation posed by the taxpayer.

Why it matters

State tax laws and their application change every year - costing taxpayers, especially those with complicated filing status - time and money. Taxpayers and business owners spend additional dollars on accountants and still make errors when filing, either paying too little or too much and sometimes incurring penalties. For example, in 2015, over 200,000 Marylanders faced penalties totaling over \$40 million. The stress and financial hardship associated with these fees and penalties is often completely avoidable, and the effort and time required by the Comptroller's office to actually collect this money can be very burdensome.

Under this bill, if a taxpayer or business is uncertain about what they owe, they can request a private letter ruling and receive the guidance that they need. Completed private letter rulings will be published online and will serve as a resource to aid other taxpayers, businesses, and tax preparers facing similar issues.

At least 33 other states have an office devoted to providing private letter rulings and tax guidance like the one proposed under this bill, and experts have suggested it would be a helpful tool for Maryland. In 2014, the [Maryland Economic Development and Business Climate Commission \(Augustine Commission\)](#) was convened by the Senate President and Speaker of the House. In 2015 and 2016 it published reports that examined the State's current economic development structure and incentive programs, and made recommendations to keep Maryland competitive in economic and private sector growth and prosperity. The [second report focused specifically on](#)

[State and local business-related taxes and tax incentives](#). **One of its key recommendations was that the state institute a private letter ruling process to allow businesses to get more guidance in properly filing state taxes.** The [report](#) explained that, “businesses currently lack certain tax guidance needed to responsibly manage their affairs” and “the publication of tax guidance is generally considered a key feature of fair and efficient tax administration...guidance in many states is provided through private letter rulings.”

Why you should vote for this bill

We face a large tax gap in our nation and state. At least part of this tax gap can be explained by the fact that businesses and taxpayers do not know exactly what they owe and underpay. Some of the tax gap is also explained by underpayments made, acknowledged by the Comptroller, but not collected due to lack of enforcement staff. Most of our taxpayers and business owners intend to pay their taxes correctly and deserve our support and assistance in avoiding errors. We will all be better off if Marylanders know what they owe and file their taxes correctly. An office dedicated to private letter rulings will save the state time and bring in additional dollars.

I urge you to vote favorably on HB366.