MARYLAND
CHAMBER of COMMERCE

Maryland Chamber of Commerce

Legislative Position

SB 472

OPPOSE

Budget & Taxation Committee
2/25/09

SB 472

Income Tax – Deduction of Officers' and Directors' Compensation

Bill Summary: This bill would deny corporations the ability to deduct the compensation of officers and directors above certain limits when computing Maryland corporate income taxes.

Chamber Position: The Maryland Chamber of Commerce opposes this bill, which would damage Maryland's competitive position as a place to do business, while raising little revenues for the state.

The federal Internal Revenue Code already has provisions that deny as a corporate deduction annual compensation for CEOs and officers that exceed $1 million, with certain exceptions. Federal legislation enacted in October of 2008 placed further restrictions on the deductibility of executive compensation for financial institutions receiving TARP funds. Excessive parachute payments for executives are also subject to tax penalties.

The bill would introduce another complicating disconnect for Maryland corporations from federal tax law that none of our competitor states (perhaps no state) have enacted. The fiscal note points out that the bill would cost funds for initial implementation, while yielding "minimal" revenues in return. The result of enacting this bill would simply be a new series of headlines degrading Maryland's business climate.

Businesses compete regionally, nationally and internationally for the talent they need to lead their companies. Compensation for those business leaders will be set in the marketplace by the boards of directors that are responsible for the success of failure of the businesses. It is ill-advised for one state to arbitrarily calculate what it feels is appropriate compensation for the leadership of a company.

For these reasons, we urge an unfavorable report for this bill.

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