Changes in the Corporation Income Tax Law

In the 2007 Special Session, the Maryland General Assembly enacted the Tax Reform Act of 2007 which resulted in significant changes in the corporation income tax law. The changes are applicable to all taxable years beginning after December 31, 2007. For more details on these changes, visit the Corporation Income Tax section of the Comptroller’s Web site www.marylandtaxes.com.

Corporation Income Tax Rate: The General Assembly has amended the statute to increase the Maryland corporation income tax rate from 7 percent to 8.25 percent.

Change in Withholding Requirement for Sales or Transfers of Real Property and Associated Personal Property by Nonresident Entities: Beginning January 1, 2008, the tax rate will be 8.25 percent.

Change in Safe Harbor for the Calculation of Underpayment of Corporation Income Tax: For tax year 2008, the total Maryland estimated tax payments must be at least 90 percent of the tax developed for the current tax year or 130 percent of the tax developed for the prior tax year. At least 25 percent of the total estimated tax must be remitted by each of the four installment due dates.

Decoupling: The General Assembly has provided that Maryland is permanently decoupled from any changes made to Section 179 of the Internal Revenue Code after December 31, 2002, increasing above the $25,000 limitation or increasing above the $200,000 phase-out threshold.

Reporting Requirements: The Maryland General Assembly has established a new Maryland Business Tax Reform Commission (the “Commission”) to review and evaluate the State’s current business tax structure and make specific recommendations for changes. In order to provide the Commission with the information necessary to perform the task assigned, the legislature has imposed new reporting requirements for certain corporations. The new reporting requirements apply to all taxable years beginning after December 31, 2005, and are to be filed on or before dates specified by the Comptroller in an electronic format specified by the Comptroller.

Section 10 of Senate Bill 2 specifically provides that, except as provided in regulations that the Comptroller adopts, the reports required for a taxable year beginning before January 1, 2007 shall be submitted as part of the corporation’s tax return for the next taxable year beginning after December 31, 2006. That being said, until such time as the Comptroller’s Office issues regulations on corporate reporting, including but not limited to due dates and format, corporations are requested to file their returns with a statement attached acknowledging the reporting requirements set forth in Senate Bill 2 and their intention to comply with those reporting requirements in a timely manner upon the issuance of guidance from the Comptroller’s office.

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