Single Sales Factor

New Changes to Maryland Corporate Income Tax Apportionment

Beginning in 2018, Maryland is changing the way in which income tax for multi-state corporations is calculated, with the result being a less punitive approach to taxation for most businesses with property and payroll in the State.

A change from three factor apportionment to Single Sales Factor Apportionment benefits companies that invest in payroll and property in Maryland as they will not have to pay more income tax on those investments. About 20 states currently use Single Sales Factor Apportionment, including New Jersey, New York, and Pennsylvania.

Phase In:

In 2018 Maryland changed the formula for apportioning corporate income, with the change phased in over five years. By tax year 2022, **most** corporations subject to the corporate income tax that carry on trade or business both within and out of Maryland must allocate to the State the part of the corporation's Maryland modified income attributed to activity in the state using an apportionment formula in which Maryland modified income is multiplied by 100% of the sales factor. The formula will be phased in as follows:

- **For tax years beginning in 2018, the sales factor is weighted three times;**
- **For tax years beginning in 2019, the sales factor is weighted four times;**
- **For tax years beginning in 2020, the sales factor is weighted five times;**
- **For tax years beginning in 2021, the sales factor is weighted six times;**
- **For tax years beginning in 2022, the single sales factor apportionment formula is used.**

Exemption:

A corporation with its worldwide headquarters in Maryland with at least 500 full-time employees at the headquarters may elect to calculate its Maryland modified income attributed to activity in the state using a three-factor, double-weighted sales factor. In addition, to determine the Maryland modified income of such headquarter corporations, gross income from intangible investment, including dividends, interest, royalties and capital gains from the sale of intangible property, shall be included in the calculation of the numerator of the average of the property and payroll factors.

For more information, please see http://commerce.maryland.gov/about/taxes

Single Sales Factor Example

Three Factor Apportionment[2]

(based on $1,000[1] income @ 8.25% tax rate)

$$\frac{\overset{\text{(state sales)}}{100{,}000}}{\underset{\text{(national sales)}}{5{,}000{,}000}} = (2) \times 2\%$$

$$\frac{\overset{\text{(state property)}}{4{,}000{,}000}}{\underset{\text{(national property)}}{4{,}500{,}000}} = 89\%$$

$$\frac{\overset{\text{(state payroll)}}{3{,}000{,}000}}{\underset{\text{(national payroll)}}{4{,}000{,}000}} = 75\%$$

$$\frac{(2) \times 2\% + 89\% + 75\%}{4} \times \$1{,}000 \times 8.25\% = \$35 \text{ state tax}$$

Single Sales Factor Apportionment[2] Fully Phased In

(based on $1,000[1] income @ 8.25% tax rate)

$$\frac{\overset{\text{(state sales)}}{100{,}000}}{\underset{\text{(national sales)}}{5{,}000{,}000}} = 2\% \times \$1{,}000 \times 8.25\% = \$2 \text{ state tax}$$

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[1] Companies have income (profits, sales minus expenses)—regardless of where it is earned, national income is the starting point for taxation

[2] That income is apportioned across the states in which the company has nexus–either using three factor apportionment double sales factor (current in MD) or single sales factor apportionment

Maryland
DEPARTMENT OF COMMERCE