

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 411

(Senator Garagiola, *et al.*)

Budget and Taxation

Corporate Income Tax - Rate Reduction

This bill reduces the corporate income tax rate from 8.25% to 8.20% for tax year 2013, 8.15% for tax year 2014, 8.10% for tax year 2015, 8.05% for tax year 2016, 8.00% for tax year 2017, 7.95% for tax year 2018, 7.90% for tax year 2019, 7.85% for tax year 2020, 7.80% for tax year 2021, and 7.75% for tax year 2022 and beyond.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund revenues decrease by \$8.1 million in FY 2014 as a result of reducing the corporate income tax rate. Transportation Trust Fund (TTF) revenues decrease by \$1.7 million, of which \$1.6 million goes to the State, and Higher Education Investment Fund (HEIF) revenues decrease by \$0.6 million in FY 2014. Future year revenue estimates reflect the current revenue forecast and applicable tax rate. Expenditures increase by a minimal amount annually.

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	(\$8.1)	(\$12.2)	(\$18.1)	(\$24.9)	(\$31.8)
SF Revenue	(\$2.4)	(\$3.6)	(\$5.3)	(\$6.5)	(\$8.3)
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$10.5)	(\$15.8)	(\$23.4)	(\$31.4)	(\$40.1)

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

Local Effect: Local highway user revenues decrease by \$0.2 million in FY 2014 and by \$0.6 million in FY 2018. Expenditures are not affected.

Small Business Effect: Minimal. While many small businesses are pass-through entities or corporations with no tax liability, small businesses that have a corporate income tax liability will benefit.

Analysis

Current Law/Background: A corporate income tax rate of 8.25% is applied to a corporation's Maryland taxable income. In general, the Maryland corporate income tax is computed using federal provisions to determine income and deductions.

Every Maryland corporation and every corporation that conducts business within Maryland, including public service companies and financial institutions, are required to pay the corporate income tax. The tax base is the portion of federal taxable income, as determined for federal income tax purposes and adjusted for certain Maryland addition and subtraction modifications, that is allocable to Maryland. Federal taxable income for this purpose is the difference between total federal income and total federal deductions (including any special deductions). The next step is to calculate a corporation's Maryland taxable income. The Maryland taxable income of a corporation that operates wholly within the State is equal to its Maryland modified income. Corporations engaged in multistate operations are required to determine the portion of their modified income attributable to Maryland, based on the amount of their trade or business carried out in Maryland. Corporations are generally required to use either a three-factor apportionment formula of payroll, property, and sales, with sales double weighted or, in the case of a manufacturing corporation, a single sales factor formula. The apportionment factor is then multiplied by the corporation's modified income to determine Maryland taxable income. The Maryland tax liability of a corporation equals the Maryland taxable income multiplied by the tax rate, less any tax credits.

Chapter 3 of the 2007 special session (SB 2) increased the corporate income tax rate from 7.00% to 8.25%. Chapter 3 also created HEIF and distributed a portion of corporate income tax revenues to that fund. Net corporate income tax revenues are projected to total almost \$1.1 billion in fiscal 2014. Of this amount, \$844.7 million is general fund revenues, \$180.5 million is TTF revenues, and \$65.4 million is HEIF revenues. **Exhibit 1** shows the distribution of corporate income tax revenues from fiscal 2014 through 2018.

Exhibit 1
Corporate Income Tax Revenue Distribution
Fiscal 2014-2018

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Share	77.45%	77.45%	77.45%	79.41%	79.41%
HEIF Share	6.00%	6.00%	6.00%	6.00%	6.00%
TTF Share	<u>16.55%</u>	<u>16.55%</u>	<u>16.55%</u>	<u>14.59%</u>	<u>14.59%</u>
	100.00%	100.00%	100.00%	100.00%	100.00%

Exhibit 2 shows the corporate income tax rates in Maryland and its surrounding states, including the District of Columbia.

Exhibit 2
Corporate Income Tax Rates
in Maryland and Surrounding States
Tax Year 2012

Delaware	8.70%
District of Columbia	9.98%
Maryland	8.25%
Pennsylvania	9.99%
Virginia	6.00%
West Virginia	7.50%

Source: Federation of Tax Administrators

State Revenues: The bill reduces the corporate income tax rate from 8.25% to 7.75% over a 10-year period; the rate is reduced to 8.20% in tax year 2013. Fiscal 2014 revenues will decrease by most of the decrease attributable to tax year 2013 and a little less than 30% of the tax year 2014 decrease. As a result, general fund revenues decrease by \$8.1 million in fiscal 2014. TTF revenues decrease by \$1.7 million, of which \$1.6 million goes to the State, and HEIF revenues decrease by \$0.6 million in fiscal 2014. **Exhibit 3** shows the impact of the bill in fiscal 2014 through 2018.

**Exhibit 3
Fiscal Impact
Fiscal 2014-2018
(\$ in Millions)**

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
General Fund	(\$8.1)	(\$12.2)	(\$18.1)	(\$24.9)	(\$31.8)
HEIF	(0.6)	(0.9)	(1.4)	(1.9)	(2.4)
TTF	(1.7)	(2.6)	(3.9)	(4.6)	(5.8)
<i>State</i>	<i>(1.6)</i>	<i>(2.4)</i>	<i>(3.5)</i>	<i>(4.1)</i>	<i>(5.3)</i>
<i>Local</i>	<i>(0.2)</i>	<i>(0.3)</i>	<i>(0.4)</i>	<i>(0.4)</i>	<i>(0.6)</i>
Total	(\$10.5)	(\$15.8)	(\$23.4)	(\$31.4)	(\$40.1)

This estimate is based on the current Board of Revenue Estimates corporate income tax forecast, adjusted for the estimated correlation between tax year and fiscal year revenues. To the extent that corporations adjust estimated payments before July 1, 2013, some revenue loss would occur in fiscal 2013.

State Expenditures: General fund expenditures from printing and postage increase by \$37,000 for notifying approximately 62,000 corporate income tax filers of the rate reduction. Processing changes to the Comptroller’s tax system can be handled with existing resources.

Local Revenues: Local governments receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Under this bill, local highway user revenues decrease by \$0.2 million in fiscal 2014 and by \$0.6 million in fiscal 2018, as shown in Exhibit 3.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Comptroller’s Office, Department of Legislative Services

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