HB 1177

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1177 (Delegate Buckel, *et al.*)
Ways and Means

Corporate Income Tax - Rate Reduction

This bill reduces the corporate income tax rate from 8.25% to 7.75% for tax year 2017, 7.25% for tax year 2018, 6.75% for tax year 2019, and 6.25% for tax year 2020 and beyond.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by $16.4 million in FY 2017 as a result of reducing the corporate income tax rate. Transportation Trust Fund (TTF) revenues decrease by $3.0 million, of which $2.7 million goes to the State, and Higher Education Investment Fund (HEIF) revenues decrease by $1.2 million in FY 2017. Future year revenue losses reflect the current revenue forecast and applicable tax rate. Processing changes to the Comptroller's tax system can be handled with existing resources.

($ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	($16.4)	($75.1)	($141.3)	($206.6)	($257.1)
SF Revenue	($4.2)	($19.5)	($36.6)	($53.6)	($66.7)
Expenditure	0	0	0	0	0
Net Effect	($20.6)	($94.6)	($177.9)	($260.2)	($323.8)

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

Local Effect: Local highway user revenues decrease by $0.3 million in FY 2017 and by $4.5 million in FY 2021. Expenditures are not affected.

Small Business Effect: Minimal. While many small businesses are pass-through entities or corporations with no corporate income 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.

Net corporate income tax revenues are projected to total $1.1 billion in fiscal 2017. Of this amount, $876.2 million is general fund revenues, $161.0 million is TTF revenues, and $66.2 million is HEIF revenues. Corporate income tax revenues comprise about 5.0% of all general fund revenues.

According to data from the Comptroller's Office, of the approximately 60,000 State corporate income tax returns filed in tax year 2012, about 40% were taxable. While most corporate returns are from unistate corporations, about 60% of all *taxable* returns come from multistate corporations.

Exhibit 1 shows the corporate income tax rates in Maryland and surrounding states, including the District of Columbia.

Exhibit 1
Corporate Income Tax Rates
in Maryland and Surrounding States
Tax Year 2016

Delaware	8.7%
District of Columbia	9.4%
Maryland	8.25%
Pennsylvania	9.99%
Virginia	6.0%
West Virginia	6.5%

Source: CCH Intelliconnect

The Department of Legislative Services issued a report in October 2013 that estimates the economic impacts of reducing the corporate income tax rate from 8.25% to 7.25%.

State Revenues: The bill reduces the corporate income tax rate to 7.75% in tax year 2017 and to 6.25% by tax year 2020. Fiscal 2017 revenues will decrease by 30% of the tax year 2017 decrease. As a result, general fund revenues decrease by $16.4 million in fiscal 2017. TTF revenues decrease by $3.0 million, of which $2.7 million goes to the State, and HEIF revenues decrease by $1.2 million in fiscal 2017. **Exhibit 2** shows the impact of the bill in fiscal 2017 through 2021.

Exhibit 2
Fiscal Impact
Fiscal 2017-2021
($ in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
General Fund	($16.4)	($75.1)	($141.3)	($206.6)	($257.1)
HEIF	(1.2)	(5.7)	(10.7)	(15.6)	(19.4)
TTF	(3.0)	(13.8)	(26.0)	(38.0)	(47.3)
State	*(2.7)*	*(12.5)*	*(23.5)*	*(34.3)*	*(42.7)*
Local	*(0.3)*	*(1.3)*	*(2.5)*	*(3.6)*	*(4.5)*
Total	**($20.6)**	**($94.6)**	**($177.9)**	**($260.2)**	**($323.8)**

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.

Local Revenues: Local governments receive a portion of corporate income tax revenues (9.6% of TTF revenues) to support the construction and maintenance of local roads and other transportation facilities. Under this bill, local highway user revenues decrease by $0.3 million in fiscal 2017 and by $4.5 million in fiscal 2021, as shown in Exhibit 2.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, CCH Intelliconnect, Department of Legislative Services

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