

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 818 (Delegate West, *et al.*)
 Ways and Means

Corporate Income Tax - Rate Reduction

This bill reduces the corporate income tax rate from 8.25% to 8.00% for tax year 2019, 7.75% for tax year 2020, 7.50% for tax year 2021, 7.25% for tax year 2022, 7.00% for tax year 2023, 6.75% for tax year 2024, 6.50% for tax year 2025, 6.25% for tax year 2026, and 6.00% for tax year 2027 and beyond. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund revenues decrease by \$8.4 million, Transportation Trust Fund (TTF) revenues decrease by \$1.5 million, and Higher Education Investment Fund (HEIF) revenues decrease by \$0.6 million in FY 2019. 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 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$8.4)	(\$37.9)	(\$71.4)	(\$107.5)	(\$144.8)
SF Revenue	(\$2.2)	(\$9.8)	(\$18.5)	(\$27.9)	(\$37.5)
Expenditure	0	0	0	0	0
Net Effect	(\$10.6)	(\$47.8)	(\$90.0)	(\$135.4)	(\$182.3)

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

Local Effect: Local highway user revenues decrease by \$0.1 million in FY 2019 and by \$2.6 million in FY 2023. Expenditures are not affected.

Small Business Effect: Minimal.

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 just over \$1.1 billion in fiscal 2019. Of this amount, \$886.5 million is general fund revenues, \$162.9 million is TTF revenues, and \$67.0 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 2014, about 40% were taxable.

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

Exhibit 1
Corporate Income Tax Rates
Maryland and Surrounding States
Tax Year 2018

Delaware	8.7%
District of Columbia	8.25%
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%.

The federal Tax Cuts and Jobs Act of 2017 altered the federal corporate income tax rates. For tax years beginning after December 31, 2017, the graduated corporate tax rate structure is eliminated and corporate taxable income is taxed at a 21% flat rate.

State Revenues: The bill reduces the corporate income tax rate to 8% in tax year 2019 and to 6% by tax year 2027. Fiscal 2019 revenues will decrease by approximately 30% of the tax year 2019 decrease. As a result, general fund revenues decrease by \$8.4 million in fiscal 2019. TTF revenues decrease by \$1.5 million, of which \$1.4 million goes to the State, and HEIF revenues decrease by \$0.6 million in fiscal 2019. **Exhibit 2** shows the impact of the bill in fiscal 2019 through 2023.

Exhibit 2
Fiscal Impact
Fiscal 2019-2023
(\$ in Millions)

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
General Fund	(\$8.4)	(\$37.9)	(\$71.4)	(\$107.5)	(\$144.8)
HEIF	(0.6)	(2.9)	(5.4)	(8.1)	(10.9)
TTF	(1.5)	(7.0)	(13.1)	(19.8)	(26.6)
<i>State</i>	<i>(1.4)</i>	<i>(6.3)</i>	<i>(11.9)</i>	<i>(17.9)</i>	<i>(24.1)</i>
<i>Local</i>	<i>(0.1)</i>	<i>(0.7)</i>	<i>(1.3)</i>	<i>(1.9)</i>	<i>(2.6)</i>
Total	(\$10.5)	(\$47.8)	(\$90.0)	(\$135.4)	(\$182.3)

HEIF: Higher Education Investment Fund

TTF: Transportation Trust Fund

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 to support the construction and maintenance of local roads and other transportation facilities. Under this bill, local highway user revenues decrease by \$0.1 million in fiscal 2019 and by \$2.6 million in fiscal 2023, 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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