MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Closing Corporate Tax Loopholes Would Enable Maryland to Invest in our Future

Position Statement in Support of House Bill 46

Given before the House Ways and Means Committee

House Bill 46 would close a loophole that allows large, multistate corporations to artificially lower their tax responsibilities in Maryland. Allowing these special tax breaks makes it harder to invest in the pillars of Maryland's economy, such as health care and education, and primarily benefits the small minority of wealthy, overwhelmingly white households that hold the bulk of corporate stock. It also puts small, Maryland-based businesses at a disadvantage. **The Maryland Center on Economic Policy supports House Bill 46** because it would improve a provision of our tax system that shields corporate profits from taxation.

House Bill 46 would require corporations to include all parent and subsidiary companies operating in the United States when calculating their corporate income tax responsibility, a reform known as combined reporting. Combined reporting closes the door to a range of currently legal accounting tactics businesses use to avoid paying taxes to Maryland.[i] For example, a company may establish a subsidiary in a state with a lower tax rate and shift its earnings there on paper by purchasing goods from the subsidiary at artificially high prices. Combined reporting essentially treats a parent company and its subsidiaries as one corporation for state income tax purposes. Doing so prevents companies from reducing their taxable revenue by artificially shifting it out of state.

Combined reporting helps put smaller corporations with no presence outside of Maryland on a more equal tax footing with larger companies that operate in many states. Main Street businesses – which are responsible for most of the job creation in Maryland – cannot afford to spend millions developing these complicated tax avoidance structures, but their large competitors can, and in doing so gain an unfair advantage. This bill would level the playing field for local business, protecting local jobs.

Combined reporting is already well established across the country. There are 28 states plus the District of Columbia using combined reporting today – a diverse group that include Alaska, California, Kentucky, Massachusetts, and West Virginia. Because it is so common, most large corporations that would be subject to these provisions already have significant experience complying with it elsewhere.[ii] Nine-tenths of the largest employers in Maryland already operate – or are part of a corporate family that operates – in combined reporting states. Most of these companies operate in California, the strictest combined reporting state of all. Three fourths of them operate in multiple combined reporting states.

Analysis by the Institute on Taxation and Economic Policy finds that closing corporate tax loopholes would primarily increase the tax responsibilities of the wealthiest individuals, who today pay a smaller share of their income in state and local taxes than the rest of us do.[iii] It would also improve racial equity by raising more revenue from the small minority of wealthy, overwhelmingly white households that hold the bulk of corporate stock.[iv]

Legislative analysts in 2022 estimated that adopting combined reporting would increase state revenues by upward of $160 million per year once fully implemented, enabling the state to invest more in public health, education, and other essential services that we will need to rebuild hollowed-out public services and strengthen the foundations of our economy in the long run.[v] Cleaning up our tax code by removing special interest tax breaks is the best way to raise the resources Maryland needs to build world-class public schools, a healthy population, and modern transportation infrastructure.

Maryland has a lot to offer as a place to do business, and will retain these advantages with corporate tax reforms that support increased investments in the foundation of our economy. We have the highest median household income nationwide.[vi] Our workforce is highly educated, with the second-highest share of advanced degree holders among the 50 states. We have the second-highest share of millionaire households nationwide – after New Jersey, a combined reporting state.[vii] And our mix of taxes and services is the second-most favorable to business nationwide, according to the accounting and consulting firm Ernst and Young.[viii] Maryland businesses get $1.43 in benefits for every dollar they pay in state and local taxes.

House Bill 46 represents an important step forward for Maryland's revenue system. If enacted, it would help us make the investments needed to recover from the pandemic and build Maryland's future prosperity.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 46.

Equity Impact Analysis: House Bill 46

Bill summary

House Bill 46 closes a loophole that currently allows large, multistate corporations to reduce their tax responsibilities in Maryland. Enacting combined reporting would require corporations to include all parent and subsidiary companies operating in the United States when calculating their corporate income tax responsibility, preventing the use of complex accounting tactics to artificially shift profits into lower-tax jurisdictions.

Background

Combined reporting is well established across the country.

- Twenty-eight states plus the District of Columbia use combined reporting today – a diverse group that include Alaska, California, Kentucky, Massachusetts, and West Virginia. Because it is so common, most large corporations that would be subject to these provisions already have significant experience complying with it elsewhere.[ix] Nine-tenths of the largest employers in Maryland already operate – or are part of a corporate family that operates – in combined reporting states. Most of these companies operate in California, the strictest combined reporting state of all. Three fourths of them operate in multiple combined reporting states.

Equity Implications

- Corporate tax loopholes primarily benefit the small number of wealthy households that hold the bulk of corporate stock and other financial assets. Multiple intersecting areas of historical and continuing racist policy have made household wealth in the United States heavily lopsided. The wealthiest 10% of white households nationwide (about 6% of all households) control nearly two-thirds of all built-up wealth.[x] Closing corporate tax loopholes would ensure that our tax code does not place greater responsibilities on people who derive their income from work than on those whose income comes from wealth, and thereby lower one barrier that holds back many Marylanders of color.

- Closing corporate tax loopholes would generate revenues that could be invested in essentials like world-class schools, sufficient child care assistance, and reliable transit. Investing in these basics strengthens our economy during an especially difficult time and can dismantle the economic barriers that too often hold back Marylanders of color.

Impact

House Bill 46 would likely **improve racial and economic equity** in Maryland.

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[i] Michael Mazerov, "State Corporate Tax Shelters and the Need for 'Combined Reporting,'" Center on Budget and Policy Priorities, 2007, https://www.cbpp.org/research/state-corporate-tax-shelters-and-the-need-for-combined-reporting?fa=view&id=777

[ii] Mazerov, Michael and Mark Enriquez, "Vast Majority of Large Maryland Corporations are Already Subject to 'Combined Reporting' in Other States," Center on Budget and Policy Priorities, November 9, 2010, http://www.cbpp.org/cms/?fa=view&id=3317.

[iii] Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, and Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, 2018, https://itep.org/wp-content/uploads/whopays-ITEP-2018.pdf

[iv] Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams, "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy

[v] Robert Rehrmann, "Fiscal and Policy Note: Senate Bill 360," Department of Legislative Services, 2022, https://mgaleg.maryland.gov/2022RS/fnotes/bil_0000/sb0360.pdf

[vi] 2021 American Community Survey one-year estimates.

[vii] "American States with the Highest Ratio of Millionaire Households Per Capita in 2020," Statista, 2022, https://www.statista.com/statistics/294941/largest-ratio-millionaire-households-per-capita-us/

[viii] Andrew Phillips, "Total State and Local Business Taxes for FY21," Ernst & Young LLP, 2022, https://www.ey.com/en_us/tax/total-state-and-local-business-taxes-for-fy21

[ix] Mazerov and Enriquez, 2010.

[x] Leachman et al., 2018