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Testimony HB 46- Corporate Income Tax – Combine Reporting
Ways and Means Committee
February 2nd, 2023
Support

AFSCME Maryland representing state and Higher Education employees stand in supports of HB 46 which closes two major corporate tax loopholes by enacting combined reporting and ending corporate “nowhere income.” Both of these changes address aspects of our tax system that allow large, multi-state corporations to use accounting gimmicks to avoid paying Maryland taxes. While these practices are currently legal in Maryland, most other states have already closed these loopholes.

This bill applies a throwback rule in determining whether sales are considered in the State for purposes of the State’s corporate income tax apportionment formula, and which closes two loopholes that currently allow large, multistate corporations to reduce their tax responsibility in Maryland. The bill also enacts a combined reporting that 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.

Enacting combined reporting would provide a more complete and accurate accounting of the profit’s corporations earn from their activities in Maryland than the current method of calculating the corporate income tax. This legislation would treat a parent company and its subsidiaries as one corporation for state income tax purposes, preventing companies from artificially shifting profits on paper to an out-of-state subsidiary.

This legislation would close another loophole that shields some corporate profits from taxation. Maryland’s corporate income tax is calculated using a formula that considers how much of a company’s sales are in Maryland. This system helps to prevent multiple states from taxing a business’s profits. However, due to a federal law passed in the 1950s, when a company located in Maryland makes sales into another state, this income is sometimes not taxed by any state and it becomes “nowhere income.”

We must begin to seek other ways of increasing revenues in Maryland to meet the needs of its citizens. Today, we see state employees working more with less and enduring short-staffing and excessive overtime due to lack of revenues. Legislation like HB 46 attempts to further that quest to look closely at Maryland’s tax structure and give away.

For these reasons, we urge the committee for a favorable report on HB 46.

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