Delegate Mary A. Lehman
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Prince George's and
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Environment and Transportation
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THE MARYLAND HOUSE OF DELEGATES
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HB 46 – CORPORATE INCOME TAX – COMBINED REPORTING

SUPPORT

GOOD AFTERNOON CHAIR ATTERBEARY, VICE CHAIR WILKINS AND WAYS & MEANS COMMITTEE MEMBERS. I AM HERE TODAY TO AT LONG LAST ASK YOUR FAVORABLE CONSIDERATION OF HB 46. ENACTING HB 46, COMBINED REPORTING OF CORPORATE INCOME, CHANGES HOW CORPORATE INCOME TAX IS CALCULATED AND PROVIDES A MORE ACCURATE ACCOUNTING OF THE PROFITS THAT LARGE MULTI-STATE CORPORATIONS EARN FROM THEIR ACTIVITIES IN MARYLAND.

CORPORATIONS THAT PRODUCE AND SELL GOODS IN MULTIPLE STATES ARE REQUIRED TO PAY STATE CORPORATE INCOME TAXES BASED ON THE PORTION OF THEIR PROFITS THAT CAN BE ATTRIBUTED TO THE STATES IN WHICH THEY OPERATE. SIMPLY SELLING GOODS IN A STATE DOES NOT ALONE SUBJECT A CORPORATION TO THAT STATE'S CORPORATE INCOME TAX. UNDER FEDERAL LAW, STATES CAN ONLY TAX CORPORATIONS WITH A SUFFICIENT "NEXUS" TO

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THE STATE, WHICH GENERALLY MEANS A PHYSICAL PRESENCE. AS A RESULT, MANY MULTI-STATE CORPORATIONS HAVE "NOWHERE" INCOME THAT CANNOT BE TAXED IN ANY STATE.

NOWHERE INCOME CREATES AN OPPORTUNITY FOR MULTISTATE CORPORATIONS TO AVOID PAYING A STATE'S INCOME TAXES. FOR EXAMPLE, IF A MARYLAND-BASED COMPANY ONLY MAKES 10% OF ITS SALES IN MARYLAND, THEN THE REMAINING 90% WILL BE NOWHERE INCOME THAT IS NOT TAXED ANYWHERE. AND YET THAT COMPANY TAKES FULL ADVANTAGE OF MARYLAND'S INFRASTRUCTURE AND TALENTED WORKFORCE. THIS LOOPHOLE HURTS MARYLAND'S SMALL BUSINESSES BECAUSE THEY USUALLY PAY STATE INCOME TAX ON 100% OF THEIR PROFITS YET MUST COMPETE WITH LARGER RIVALS THAT PAY MUCH LESS.

UNDER A COMBINED REPORTING LAW, A MULTI-STATE PARENT COMPANY AND ITS SUBSIDIARIES ARE TREATED AS ONE CORPORATION FOR STATE INCOME TAX PURPOSES. IT ESTABLISHES THAT MULTI-STATE CORPORATIONS REPORT TO THE

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STATE INCOME BASED ON THE AMOUNT OF MARYLAND BUSINESS THEY CONDUCT. THIS STRATEGY PREVENTS THE MULTI-STATE COMPANY FROM REDUCING ITS TAXABLE PROFITS THROUGH A RANGE OF LEGAL ACCOUNTING TACTICS.

FAIRNESS AND THE FINANCIAL IMPACT

- FIRST AND FOREMOST, THIS IS A FAIRNESS ISSUE. COMBINED REPORTING HELPS TO PUT LARGER MULTI-STATE COMPANIES ON MORE EQUAL TAX FOOTING WITH THOSE BUSINESSES WHOSE ENTERPRISES ARE IN MARYLAND ONLY. MAIN STREET BUSINESSES CANNOT AFFORD THESE COMPLICATED TAX AVOIDANCE STRUCTURES. IN THAT WAY, LARGE MULTI-STATE COMPETITORS GAIN AN UNFAIR ADVANTAGE.
- MULTI-STATE CORPORATIONS AND THEIR EMPLOYEES CONSUME MARYLAND RESOURCES AND SERVICES. THEY USE ROADWAYS AND BRIDGES AND RIDE OUR MASS TRANSIT. THEIR KIDS ATTEND OUR PUBLIC SCHOOLS, YET THEIR EMPLOYERS ARE NOT PAYING THEIR FAIR SHARE OF TAXES.

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- MANY LOCAL BUSINESSES IN EACH OF OUR OWN DISTRICTS HAVE CONTINUED TO RECOVER FROM COVID-19. AT THE SAME TIME, MANY LARGE CORPORATIONS HAVE DONE VERY WELL AND PROFITS HAVE GROWN.
- COMBINED REPORTING IS WELL-ESTABLISHED AROUND THE COUNTRY - REQUIREMENTS ARE CURRENTLY IN EFFECT IN 29 STATES AS WELL AS THE DISTRICT OF COLUMBIA. HAWAII AND NEW HAMPSHIRE HAVE BOTH CONSIDERED MOVING TO INTERNATIONAL COMBINED REPORTING.
- HB 46 COULD PROVIDE MORE THAN $160 MILLION PER YEAR IN ADDITIONAL REVENUES ONCE FULLY PHASED IN. THE BILL WOULD HAVE NO EFFECT ON LOCAL OR SMALL BUSINESS AS IT ONLY APPLIES TO LARGE CORPORATIONS.

THANK YOU FOR YOUR CONSIDERATION. I URGE A FAVORABLE REPORT.