

Department of Legislative Services  
 Maryland General Assembly  
 2024 Session

FISCAL AND POLICY NOTE  
 First Reader

Senate Bill 923 (Senator Mautz)  
 Budget and Taxation

**Corporate Income Tax - Rate Reduction (Economic Competitiveness Act of 2024)**

This bill reduces the corporate income tax rate from 8.25% to 6.25% by tax year 2028. The change is phased in over four tax years – 7.75% for tax year 2025; 7.25% for tax year 2026; and 6.75% for tax year 2027. **The bill takes effect July 1, 2024.**

**Fiscal Summary**

**State Effect:** In FY 2025, general fund revenues decrease by an estimated \$32.7 million, Higher Education Investment Fund (HEIF) revenues decrease by an estimated \$2.6 million, and Transportation Trust Fund (TTF) revenues decrease by an estimated \$7.6 million. In addition, TTF expenditures for local highway user revenue grants decrease by an estimated \$1.4 million in FY 2025. Future years reflect annualization, the current corporate income tax revenue forecast, and phased decreases in the corporate income tax rate.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF Revenue	(\$32.7)	(\$144.3)	(\$264.8)	(\$397.0)	(\$484.8)
SF Revenue	(\$10.2)	(\$47.3)	(\$86.7)	(\$118.4)	(\$144.6)
SF Expenditure	(\$1.4)	(\$7.2)	(\$13.1)	(\$13.6)	(\$16.7)
Net Effect	(\$41.5)	(\$184.4)	(\$338.4)	(\$501.7)	(\$612.7)

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

**Local Effect:** Local highway user revenues decrease by an estimated total of \$52.0 million over FY 2025 through 2029, as discussed below. Local expenditures are not directly affected.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** Each Maryland corporation and every other corporation that conducts business within Maryland, including public service companies and financial institutions, is subject to the Maryland corporate income tax.

### *Tax Rate and Base*

Under the corporate income tax, a tax rate of 8.25% is applied to a corporation's Maryland taxable income. Maryland taxable income is federal taxable income (federal gross income minus allowable federal deductions) adjusted for Maryland addition and subtraction modifications (Maryland modified income) and allocated to the State based on the applicable apportionment factor. Pursuant to Chapters 341 and 342 of 2018, beginning in tax year 2022, corporations operating as unitary businesses within and outside the State (with the exception of specified worldwide headquartered companies) must use a single-factor apportionment formula based on sales (single sales factor formula) to determine Maryland taxable income.

### *Distribution of Revenues*

The majority of corporate income tax revenues are distributed to the general fund, while 6% is distributed to HEIF and an additional specified percentage is distributed to the Gasoline and Motor Vehicle Revenue Account (GMVRA) within TTF. Chapter 240 of 2022 increased the percentage of corporate income tax revenues that is distributed to GMVRA (minus specified distributions for administrative costs) from 17.2% to 20% for fiscal 2024, 21% for fiscal 2025, 22% for fiscal 2026 and 2027, and 20% for fiscal 2028 and beyond. Chapter 240 also increased the percentage of GMVRA funds that is distributed to local governments in the form of local highway user revenue grants.

According to the December 2023 revenue estimates, general fund revenues from the corporate income tax are projected to total \$1.8 billion in fiscal 2024.

**State/Local Revenues:** Corporate income tax revenues decrease significantly beginning in fiscal 2025 due to the bill's reductions to the corporate income tax rate. **Exhibit 1** shows the bill's estimated effect on State and local revenues in fiscal 2025 through 2029. As shown in the exhibit, in fiscal 2025, general fund revenues decrease by an estimated \$32.7 million, HEIF revenues decrease by an estimated \$2.6 million, and TTF revenues decrease by an estimated \$7.6 million. Future years reflect annualization, the current corporate income tax forecast, and phased reductions in the corporate income tax rate.

As noted above, a portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local highway user revenues). Thus, local highway user revenues decrease by an estimated \$1.4 million in fiscal 2025.

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**Exhibit 1**  
**Projected Effect on State and Local Revenues**  
**Fiscal 2025-2029**  
**(\$ in Millions)**

	<u><b>FY 2025</b></u>	<u><b>FY 2026</b></u>	<u><b>FY 2027</b></u>	<u><b>FY 2028</b></u>	<u><b>FY 2029</b></u>
<b>State Revenues</b>					
General Fund	(\$32.7)	(\$144.3)	(\$264.8)	(\$397.0)	(\$484.8)
HEIF	(2.6)	(11.5)	(21.1)	(30.9)	(37.8)
TTF	(7.6)	(35.8)	(65.6)	(87.5)	(106.8)
<b>Total</b>	<b>(\$42.9)</b>	<b>(\$191.6)</b>	<b>(\$351.5)</b>	<b>(\$515.4)</b>	<b>(\$629.4)</b>
<b>Local Revenues</b>					
LHUR	(\$1.4)	(\$7.2)	(\$13.1)	(\$13.6)	(\$16.7)

HEIF: Higher Education Investment Fund  
LHUR: local highway user revenues  
TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

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The bill is not expected to affect the Maryland Department of Transportation’s ability to meet minimum debt service coverage requirements during the estimate period.

**State Expenditures:** TTF expenditures for local highway user revenue grants decrease by an estimated \$52.0 million over fiscal 2025 through 2029 – \$1.4 million in fiscal 2025; \$7.2 million in fiscal 2026; \$13.1 million in fiscal 2027; \$13.6 million in fiscal 2028; and \$16.7 million in fiscal 2029.

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**Additional Information**

**Recent Prior Introductions:** Similar legislation has been introduced within the last three years. See HB 741 of 2023 and HB 869 of 2020.

**Designated Cross File:** HB 1282 (Delegate Hartman, *et al.*) - Ways and Means.

**Information Source(s):** Comptroller’s Office; Department of Legislative Services

**Fiscal Note History:** First Reader - February 25, 2024  
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