HB 855

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 855 (Delegate Elliott, *et al.*)
Ways and Means

Corporate Income Tax - Rate Reduction

This bill decreases the corporate income tax rate from 8.25% to 6%.

The bill takes effect July 1, 2011, and applies to tax year 2011 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $231.2 million in FY 2012 as a result of reducing the corporate income tax rate. Transportation Trust Fund (TTF) revenues decrease by $48.2 million and Higher Education Investment Fund (HEIF) revenues decrease by $17.8 million in FY 2012. Future year revenue losses reflect the current revenue forecast and the lower tax rate.

($ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	($231.2)	($198.2)	($211.7)	($215.0)	($223.6)
SF Revenue	($66.0)	($57.3)	($61.2)	($62.2)	($64.7)
Expenditure	0	0	0	0	0
Net Effect	($297.2)	($255.5)	($272.9)	($277.2)	($288.2)

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

Local Effect: Local highway user revenues (LHUR) decrease by $4.9 million in FY 2012 and by $5.4 million in FY 2016. 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. Maryland is a "unitary business" State, in that a corporation is required to allocate all of its Maryland income (that portion that is "derived from or reasonably attributable to its trade or business in the State") attributable to the corporation's "unitary business."

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 apportioned 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 a 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.

Chapter 3 of the 2007 special session increased the tax rate from 7% to 8.25%. Chapter 3 also created, and distributed a portion of corporate income tax revenues to, HEIF. Net corporate income tax revenues are projected to total $844.6 million in fiscal 2012. Of this amount, $621.9 million is general fund revenues, $172.0 million is TTF revenues, and $50.7 million is HEIF revenues.

State Revenues: The bill decreases the corporate income tax from 8.25% to 6% beginning in tax year 2011. Fiscal 2012 revenues will decrease by most of the decrease attributable to tax year 2011 and a little less than 30% of tax year 2012. As a result, general fund revenues decrease by $231.2 million in fiscal 2012. TTF revenues decrease by $48.2 million and HEIF revenues decrease by $17.8 million in fiscal 2012. **Exhibit 1** shows the impact of the bill in fiscal 2012 through 2016.

Exhibit 1
HB 855 Fiscal Impact
($ in Millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenues	($231.2)	($198.2)	($211.7)	($215.0)	($223.6)
HEIF	(17.8)	(15.3)	(16.4)	(16.6)	(17.3)
TTF Revenues	(48.2)	(42.0)	(44.9)	(45.6)	(47.4)
MDOT	(43.3)	(37.2)	(39.7)	(40.4)	(42.0)
LHUR	(4.9)	(4.8)	(5.1)	(5.2)	(5.4)
Total Revenues	**($297.2)**	**($255.5)**	**($272.9)**	**($277.2)**	**($288.2)**

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. To the extent that corporations adjust estimated payments before July 1, 2011, some revenue losses would occur in fiscal 2011.

Local Revenues: Baltimore City, counties, and municipalities receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Pursuant to this legislation, local highway user revenues decrease by $4.9 million in fiscal 2012 and by $5.4 million in fiscal 2016, as shown in Exhibit 1.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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mc/jrb

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