Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 793 (Senator Garagiola, *et al.*)
Budget and Taxation

Corporate Income Tax - Rate in Economically Depressed Counties

This bill reduces, from 8.25% to 6%, the corporate income tax rate imposed on the income of a corporation that is attributable to the operation of the corporation in a "qualified distressed county."

The bill takes effect July 1, 2012, and applies to tax year 2012 and beyond.

Fiscal Summary

State Effect: General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues may decrease significantly beginning in FY 2013 as a result of reducing the corporate income tax rate. General fund expenditures increase by $99,600 in FY 2013 due to administrative costs at the Comptroller's Office.

Local Effect: Local highway user revenues will decrease beginning in FY 2013 as a result of the reduced corporate income tax rate. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law/Background:

Corporate Income Tax

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.

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 apportionment 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 the 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 corporate income tax rate from 7% to 8.25%. Chapter 3 also created HEIF and distributed a portion of corporate income tax revenues to that fund. Net corporate income tax revenues are projected to total $822.3 million in fiscal 2013. Of this amount, $706.7 million is general fund revenues, $66.3 million is TTF revenues, and $49.3 million is HEIF revenues.

Qualified Distressed County

To qualify as a distressed county, a county must have:

- an average unemployment rate that must exceed 150% of the State's average during the preceding 24-month period; or
- a per capita personal income that may not exceed 67% of the State's average during the preceding 24-month period.

In addition to increasing, from 18 months to 24 months, the period by which a county's average unemployment rate is determined, Chapter 498 of 2008 provided an exception to the designation of a distressed county by specifying that a distressed county includes any county that no longer meets the unemployment and personal income criteria but has met at least one of the criteria at some point in the preceding 12-month period, which was subsequently extended to the preceding 24-month period by Chapter 303 of 2011.

Allegany, Caroline, Somerset, and Worcester counties currently meet the criteria for designation as distressed counties. As of March 2010, Baltimore City did not meet either criterion; however, it remains eligible through March 2012 due to the extension of the eligibility grace period from 12 months to 24 months.

State Revenues: The bill decreases the corporate income tax rate from 8.25% to 6% for the income of a corporation that is attributable to operations in a qualified distressed county beginning in tax year 2012. The bill specifies that the amount of income allocated to a qualified county that is eligible for the rate reduction is determined under a separate accounting method using the gross income, deductions, expenses, gains, and losses that are directly attributable to the operations of the corporation in the county. However, the Comptroller's Office can approve an alternative method. Accordingly, general fund, TTF, and HEIF revenues may decrease significantly beginning in fiscal 2013. However, the amount of the revenue loss cannot be reliably estimated and depends on the amount of corporate taxable income that is attributable to operations in the qualified distressed counties.

State Expenditures: The Comptroller's Office reports that it will incur additional expenditures beginning in fiscal 2013 as a result of hiring two revenue analysts to implement the bill and assess taxpayer compliance. As a result, general fund expenditures could increase by $99,600 in fiscal 2013, which reflects a hiring date of January 1, 2013. It includes salaries, fringe benefits, one-time taxpayer notification expenses, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	$53,322
Operating Expenses	46,240
Total FY 2013 Comptroller Expenditures	**$99,562**

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

Local Revenues: Local highway user revenues will decrease beginning in fiscal 2013 as a result of reduced corporate income tax revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 12, 2012
mm/jrb

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