

Department of Legislative Services  
Maryland General Assembly  
2015 Session

FISCAL AND POLICY NOTE

House Bill 590  
Ways and Means

(Delegate McKay, *et al.*)

---

Corporate Income Tax - Rate Reduction - Allegany County and Washington  
County

---

This bill reduces the corporate income tax rate from 8.25% to 4.00% for a corporation with its headquarters and base of operations in Allegany County or Washington County.

The bill takes effect July 1, 2015, and applies to tax years 2015 through 2022. The bill terminates on June 30, 2023.

---

Fiscal Summary

**State Effect:** General fund, Transportation Trust Fund (TTF), and Higher Education Investment Fund (HEIF) revenues decrease significantly in FY 2016. While the total decrease in revenues cannot be reliably estimated, *for illustrative purposes only*, under one set of assumptions, total revenues may decrease by approximately \$21 million in FY 2016 and by \$19.2 million in FY 2020. General fund expenditures increase by \$200,000 in FY 2016 due to administrative costs at the Comptroller's Office.

**Local Effect:** Local highway user revenues decrease significantly in FY 2016. Under one set of assumptions, local highway user revenues decrease by \$0.3 million in FY 2016 and by \$0.3 million in FY 2020. Expenditures are not affected.

**Small Business Effect:** Minimal. While many small businesses are pass-through entities or corporations with no corporate income tax liability, small businesses with headquarters and base of operations in Allegany County or Washington County that have a corporate income tax liability will benefit.

---

## 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.

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 7.00% 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 \$1.1 billion in fiscal 2016. Of this amount, \$822.1 million is general fund revenues, \$175.6 million is TTF revenues, and \$63.7 million is HEIF revenues. **Exhibit 1** shows the distribution of corporate income tax revenues for fiscal 2016 through 2020.

---

**Exhibit 1**  
**Corporate Income Tax Revenue Distribution**  
**Fiscal 2016-2020**

	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>	<u><b>FY 2018</b></u>	<u><b>FY 2019</b></u>	<u><b>FY 2020</b></u>
GF Share	77.45%	79.41%	79.41%	79.41%	79.41%
HEIF Share	6.00%	6.00%	6.00%	6.00%	6.00%
TTF Share	16.55%	14.59%	14.59%	14.59%	14.59%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

---

**Exhibit 2** shows the corporate income tax rates in Maryland and the surrounding states, including the District of Columbia.

---

**Exhibit 2**  
**Corporate Income Tax Rates**  
**in Maryland and Surrounding States**  
**Tax Year 2014**

Delaware	8.7%
District of Columbia	9.975%
Maryland	8.25%
Pennsylvania	9.99%
Virginia	6.0%
West Virginia	6.5%

Source: Federation of Tax Administrators

---

The Department of Legislative Services issued a [report](#) in October 2013 that estimates the economic impacts of reducing the corporate income tax rate from 8.25% to 7.25%.

**State Revenues:** The bill reduces the corporate income tax rate from 8.25% to 4.00% for a corporation with its headquarters and base of operations in Allegany County or Washington County beginning in tax year 2015. The decrease in corporate income tax revenues depends on the corporate income tax liabilities of corporations that have their

headquarters and base of operations in Allegany County or Washington County, which cannot be reliably estimated at this time.

*For illustrative purposes only, Exhibit 3 shows the impact of the bill in fiscal 2016 through 2020, assuming that 3% of corporations have their headquarters and base of operations in Allegany County or Washington County. Based on that assumption, general fund revenues decrease by \$16.3 million in fiscal 2016. TTF revenues decrease by \$3.5 million, of which \$3.1 million goes to the State, and HEIF revenues decrease by \$1.3 million in fiscal 2016.*

---

**Exhibit 3**  
**Fiscal Impact**  
**Fiscal 2016-2020**  
**(\$ in Millions)**

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
General Fund	(\$16.3)	(\$13.9)	(\$14.4)	(\$14.6)	(\$15.3)
HEIF	(1.3)	(1.0)	(1.1)	(1.1)	(1.2)
TTF	(3.5)	(2.5)	(2.6)	(2.7)	(2.8)
<i>State</i>	<i>(3.1)</i>	<i>(2.3)</i>	<i>(2.4)</i>	<i>(2.4)</i>	<i>(2.5)</i>
<i>Local</i>	<i>(0.3)</i>	<i>(0.2)</i>	<i>(0.3)</i>	<i>(0.3)</i>	<i>(0.3)</i>
<b>Total</b>	<b>(\$21.0)</b>	<b>(\$17.5)</b>	<b>(\$18.1)</b>	<b>(\$18.4)</b>	<b>(\$19.2)</b>

---

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, 2015, some revenue loss would occur in fiscal 2015.

**State Expenditures:** The Comptroller’s Office advises that adding a separate corporate income tax rate for Allegany County and Washington County would require extensive modifications to the Comptroller’s corporate income tax system. General fund expenditures increase by \$200,000 in fiscal 2016 for processing changes to the Comptroller’s tax system.

**Local Revenues:** Local governments receive a portion of corporate income tax revenues (9.6% of TTF revenues) to support the construction and maintenance of local roads and other transportation facilities. Under one set of assumptions, local highway user revenues decrease by \$0.3 million in fiscal 2016 and by \$0.3 million in fiscal 2020, as shown in Exhibit 3.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Allegany and Washington counties, Comptroller's Office,  
Department of Legislative Services

**Fiscal Note History:** First Reader - March 3, 2015  
min/jrb

---

Analysis by: Heather N. Ruby

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510