

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 361 (Delegate Korman)
 Ways and Means

Effective Corporate Tax Rate Transparency Act of 2019

This bill requires publicly traded corporations, including subsidiaries, that are required to file a Maryland corporate income tax return to attach to the State income tax return a confidential statement that identifies the corporation’s effective tax rate. The statement must provide an itemized explanation of how the effective tax rate was calculated and a comparison of the effective tax rate of the corporation both before and after the application of any credits, deductions, subtraction modifications, or other adjustments. The Comptroller must collect and compile this information and report as specified in the bill to the Governor and the General Assembly by March 1 each year. **The bill takes effect July 1, 2019, and applies to tax year 2019 and beyond.**

Fiscal Summary

State Effect: General fund expenditures increase by \$233,300 in FY 2020 to create the statement and compile the information at the Comptroller’s Office. Out-years reflect elimination of one-time costs. Revenues are not affected.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	233,300	38,700	40,000	41,400	42,800
Net Effect	(\$233,300)	(\$38,700)	(\$40,000)	(\$41,400)	(\$42,800)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The “effective tax rate” means a percentage that equals the quotient of the State income tax liability of a publicly traded corporation and the book income of the corporation determined in accordance with generally accepted accounting principles and as allocated to the State. The statement required under the bill must be made under oath and signed in the same manner as required for income tax returns and is subject to audit by the Comptroller.

Current Law: 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 multi-state 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.

Prior to tax year 2018, corporations were 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. Chapter 342 of 2018 altered the apportionment formula so that by tax year 2022, all corporations subject to the corporate income tax, with an exception for specified worldwide headquartered companies, that carry on a trade or business in and out of State must allocate to the State the part of the corporation’s Maryland modified income derived from or attributed to being carried on in the State using an apportionment formula in which Maryland modified income is multiplied by 100% of the sales factor. The Maryland tax liability of a corporation equals the Maryland taxable income multiplied by the tax rate, less any tax credits.

State Expenditures: General fund expenditures increase by \$233,319 in fiscal 2020, which accounts for the bill’s July 1, 2019 effective date. This estimate reflects the cost of hiring one part-time revenue policy analyst to compile the information reported on the statements and submit an annual report and one-time costs of \$190,000 for a certified

public accounting firm to create a new form and for additional computer programming to handle the data collection and aggregation. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	0.5
Salaries and Fringe Benefits	\$38,116
Programming and Contractual Services	190,000
Operating Expenses	<u>5,203</u>
Total FY 2020 State Expenditures	\$233,319

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

Additional Information

Prior Introductions: None.

Cross File: SB 480 (Senator McCray) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 11, 2019
an/hlb

Analysis by: Heather N. Ruby

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