HB 869

Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 869 (Delegate Buckel, *et al.*)
Ways and Means

Corporate Income Tax - Rate Reduction

This bill reduces the corporate income tax rate from 8.25% to 7.75% for tax year 2021, 7.25% for tax year 2022, 6.75% for tax year 2023, and 6.25% for tax year 2024 and beyond. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: General fund revenues decrease by $21.7 million, Transportation Trust Fund (TTF) revenues decrease by $4.0 million, and Higher Education Investment Fund (HEIF) revenues decrease by $1.6 million in FY 2021. Combined with a reduction in bond issuances, TTF revenues decrease by approximately $241.9 million over the five-year period. Future year revenue losses reflect annualization, the current revenue forecast and applicable tax rate. TTF expenditures for capital transportation grants to local governments decrease by $0.5 million in FY 2021 and by $6.1 million in FY 2025. Additionally, TTF expenditures for debt service payments decrease by $11.4 million over a five-year period.

($ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	($21.7)	($98.2)	($185.0)	($277.7)	($347.0)
SF Revenue	($5.6)	($25.5)	($48.0)	($72.0)	($90.0)
Bond Rev.	($21.0)	($14.7)	($13.9)	($12.2)	($9.3)
SF Expenditure	($0.9)	($3.5)	($6.3)	($10.4)	($10.8)
Net Effect	($47.3)	($134.8)	($240.5)	($351.5)	($435.5)

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

Local Effect: Local highway user revenues decrease by $0.5 million in FY 2021 and by $6.1 million in FY 2025. 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.

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.

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 one-factor formula based on sales, referred to as a single sales factor formula. The apportionment factor is then multiplied by the corporation's modified income to determine Maryland taxable income.

Chapters 341 and 342 of 2018 phase in a requirement that all corporations subject to the corporate income tax, with an exception for specified worldwide headquartered companies, use a single sales factor formula to apportion income to the State.

The Maryland tax liability of a corporation equals the Maryland taxable income multiplied by the tax rate, less any tax credits.

The majority of corporate income tax revenues are distributed to the general fund with 6% of corporate income tax revenues distributed to HEIF. A portion of corporate income tax revenues are also distributed to TTF, of which 13.5% of TTF revenues are used to provide capital transportation grants to local governments (9.6% beginning in fiscal 2025).

Net corporate income tax revenues are projected to total almost $1.4 billion in fiscal 2021. Of this amount, $1.1 billion is general fund revenues, $202.4 million is TTF revenues, and $83.2 million is HEIF revenues. Corporate income tax revenues comprise about 5.7% of all general fund revenues. According to data from the Comptroller's Office, of the over 60,000 State corporate income tax returns filed in tax year 2015, about 40% were taxable.

Exhibit 1 shows the corporate income tax rates in Maryland and surrounding states, including the District of Columbia.

Exhibit 1
Corporate Income Tax Rates
Maryland and Surrounding States
Tax Year 2020

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

Source: CCH Intelliconnect

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%.

The federal Tax Cuts and Jobs Act of 2017 enacted changes to federal corporate income tax, including a reduction in rates. For tax years beginning after December 31, 2017, the graduated corporate tax rate structure is eliminated and corporate taxable income is taxed at a 21% flat rate.

State Revenues: The bill reduces the corporate income tax rate to 7.75% in tax year 2021 and to 6.25% by tax year 2024. As a result, general fund revenues decrease by $21.7 million in fiscal 2021, which reflects the impact of about one-third of tax year 2021. TTF revenues decrease by $4.0 million, and HEIF revenues decrease by $1.6 million in fiscal 2021. **Exhibit 2** shows the impact of the bill in fiscal 2021 through 2025.

The $170.8 million reduction in TTF revenues over the five-year period requires MDOT to reduce its bond issuances by approximately $71.1 million, resulting in a $241.9 million reduction in TTF revenues.

Exhibit 2
Fiscal Impact
Fiscal 2021-2025
($ in Millions)

Revenues	**2021**	**2022**	**2023**	**2024**	**2025**
General Fund	($21.7)	($98.2)	($185.0)	($277.7)	($347.0)
HEIF	(1.6)	(7.4)	(14.0)	(21.0)	(26.2)
TTF	(4.0)	(18.0)	(34.0)	(51.0)	(63.8)
Total Revenues	**($27.3)**	**($123.6)**	**($232.9)**	**($349.7)**	**($437.0)**
TTF Grant Expenditures	**($0.5)**	**($2.4)**	**($4.6)**	**($6.9)**	**($6.1)**

HEIF: Higher Education Investment Fund
TTF: Transportation Trust Fund

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.

State Expenditures: A portion of TTF revenues are used to provide capital transportation grants to local governments. Thus, any decrease in TTF revenues from corporate income tax revenues results in a 13.5% decrease in TTF expenditures to local governments (9.6% beginning in fiscal 2025). Accordingly, TTF expenditures decrease by $0.5 million in fiscal 2021 and by $6.1 million in fiscal 2025 as shown in Exhibit 2. TTF revenues also fund the State capital program; thus, a decrease in TTF revenues decreases expenditures for the State capital program. As MDOT issues less debt under the bill, it experiences a corresponding reduction in debt service payments. Thus, TTF expenditures for debt service payments decrease by $11.4 million over a five-year period.

Processing changes to the Comptroller's tax system can be handled with existing resources.

Local Revenues: Local governments receive a portion of corporate income tax revenues as local highway user revenues through capital transportation grants. Under this bill, local highway user revenues decrease by $0.5 million in fiscal 2021 and by $6.1 million in fiscal 2025.

Additional Information

Prior Introductions: HB 375 of 2019, HB 1018 of 2017, and HB 1177 of 2016 received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland Department of Transportation; CCH Intelliconnect; Department of Legislative Services

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