MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

FEBRUARY 12, 2020

Closing Corporate Tax Loopholes Would Enable Maryland to Invest in our Future

Position Statement in Support of House Bill 295

Given before the House Ways and Means Committee

House Bill 295 would close a loophole that allows large, multistate corporations to artificially lower their tax responsibility in Maryland. Allowing these special tax breaks makes it harder to invest in the pillars of Maryland's economy, such as health care and education. It also puts small, Maryland-based businesses at a disadvantage. The Maryland Center on Economic Policy supports House Bill 295 because it would improve a provision of our tax system that shields corporate profits from taxation.

House Bill 295 would require corporations to include all parent and subsidiary companies operating in the United States when calculating their corporate income tax responsibility, a reform known as combined reporting. Combined reporting closes the door to a range of currently legal accounting tactics businesses use to avoid paying taxes to Maryland.[i] For example, a company may establish a subsidiary in a state with a lower tax rate and shift its earnings there on paper by purchasing goods from the subsidiary at artificially high prices. Combined reporting essentially treats a parent company and its subsidiaries as one corporation for state income tax purposes. Doing so prevents companies from reducing their taxable revenue by artificially shifting it out of state.

Combined reporting helps put smaller corporations with no presence outside of Maryland on a more equal tax footing with larger companies that operate in many states. Main Street businesses—which are responsible for most of the job creation in Maryland—cannot afford to spend millions developing these complicated tax avoidance structures, but their large competitors can, and in doing so gain an unfair advantage. This bill would level the playing field for local business, protecting local jobs.

Combined reporting is already well established across the country. There are 28 states plus the District of Columbia using combined reporting today—a diverse group that include Alaska, California, Kentucky, Massachusetts, and West Virginia. Because it is so common, most large corporations that would be subject to these provisions already have significant experience complying with it elsewhere.[ii] Ninety percent of the largest employers in Maryland already operate—or are part of a corporate family that operates—in combined reporting states. Most of these companies operate in California, the strictest combined reporting state of all. Three fourths of them operate in multiple combined reporting states.

Legislative analysts estimate that House Bill 295 would increase state revenues by more than $120 million per year once fully implemented, enabling the state to invest more in education and other essential services that will strengthen our economy in the long run.[iii] Cleaning up our tax code by removing special interest tax breaks is the best way to raise the resources Maryland needs to build world-class public schools, a healthy population, and modern transportation infrastructure.

Maryland has a lot to offer as a place to do business, and will retain these advantages with corporate tax reforms that support increased investments in the foundation of our economy. We have the highest median household income among the 50 states.[iv] Our workforce is highly educated, with the second-highest share of advanced degree holders. College graduates have moved into Maryland at higher rates in recent years than into most other states.[v] We have the more millionaires per capita than all but three states—all of which require combined reporting.[vi] And our mix of taxes and services is among the most favorable to businesses, according to the accounting and consulting firm Ernst and Young.[vii]

House Bill 295 represents an important step forward for Maryland's revenue system. If enacted, it would help us make the investments needed to build Maryland's future prosperity.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 295.

Equity Impact Analysis: House Bill 295

Bill summary

House Bill 295 closes two loopholes that currently allow large, multistate corporations to reduce their tax responsibility in Maryland. Enacting combined reporting would require corporations to include all parent and subsidiary companies operating in the United States when calculating their corporate income tax responsibility, preventing the use of complex accounting tactics to artificially shift profits into lower-tax jurisdictions.

Background

Combined reporting is well established across the country.

- Twenty-eight states plus the District of Columbia use combined reporting today—a diverse group that include Alaska, California, Kentucky, Massachusetts, and West Virginia. Because it is so common, most large corporations that would be subject to these provisions already have significant experience complying with it elsewhere.[viii] Ninety percent of the largest employers in Maryland already operate—or are part of a corporate family that operates—in combined reporting states. Most of these companies operate in California, the strictest combined reporting state of all. Three fourths of them operate in multiple combined reporting states.

Equity Implications

- Corporate tax loopholes primarily benefit the small number of wealthy households that hold the bulk of corporate stock and other financial assets. Multiple intersecting areas of historical and continuing racist policy have made household wealth in the United States heavily lopsided. The wealthiest 10 percent of white households nationwide (about 6 percent of all households) control nearly two-thirds of all built-up wealth.[ix] Closing corporate tax loopholes would ensure that our tax code does not place greater responsibilities on people who derive their income from work than on those whose income comes from wealth, and thereby lower one barrier that holds back many Marylanders of color.
- Closing corporate tax loopholes would generate revenues that could be invested in things like world-class

schools, sufficient child care assistance, and reliable transit. Investing in these basics strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

Impact

House Bill 295 would likely **improve racial and economic equity** in Maryland.

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i Michael Mazerov, "State Corporate Tax Shelters and the Need for 'Combined Reporting,'" Center on Budget and Policy Priorities, 2007, https://www.cbpp.org/research/state-corporate-tax-shelters-and-the-need-for-combined-reporting?fa=view&id=777

ii Mazerov, Michael and Mark Enriquez, "Vast Majority of Large Maryland Corporations are Already Subject to 'Combined Reporting' in Other States," Center on Budget and Policy Priorities, November 9, 2010, http://www.cbpp.org/cms/?fa=view&id=3317.

iii Heather MacDonagh, "Fiscal and Policy Note: House Bill 295," Department of Legislative Services, 2020, http://mgaleg.maryland.gov/2020RS/fnotes/bil_0005/hb0295.pdf

iv 2017 American Community Survey one-year estimates.

v Quoctrung Bui, "The States That College Graduates Are Most Likely to Leave," *The New York Times*, Nov. 22, 2016, https://www.nytimes.com/2016/11/22/upshot/the-states-that-college-graduates-are-most-likely-to-leave.html

vi Jeff Clabaugh, "Maryland Loses No. 1 Spot for Millionaires; DC Is No. 2," *WTOP*, January 30, 2019, https://wtop.com/business-finance/2019/01/maryland-loses-no-1-spot-for-millionaires-dc-is-no-2/

vii "Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2016," Ernst & Young LLP, 2017, https://www.ey.com/Publication/vwLUAssets/ey-total-state-and-local-business-taxes-2016/$File/ey-total-state-and-local-business-taxes-2016.pdf

viii Mazerov, Michael and Mark Enriquez, "Vast Majority of Large Maryland Corporations are Already Subject to 'Combined Reporting' in Other States," Center on Budget and Policy Priorities, November 9, 2010, http://www.cbpp.org/cms/?fa=view&id=3317.

ix 2016 Survey of Consumer Finances.