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Testimony

HB 473- Corporate Income Tax – Throwback Rule
Ways and Means Committee
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Support

AFSCME Maryland representing state employees supports HB 473.This bill applies a "throwback" rule in determining whether sales are considered in the State for purposes of the State's corporate income tax apportionment formula.

This legislation would close another loophole that shields some corporate profits from taxation. Maryland's corporate income tax is calculated using a formula that considers how much of a company's sales are in Maryland. This system helps to prevent multiple states from taxing a business's profits. However, due to a federal law passed in the 1950s, when a company located in Maryland makes sales into another state, this income is sometimes not taxed by *any* state and It becomes "nowhere income."

Proposed legislation would ensure that each dollar of corporate income in Maryland is subject to taxation by a single state, without double taxation or nowhere income. Specifically, when a Maryland-based corporation sells goods into states that do not have jurisdiction to tax those sales, the bill would assign the resulting income to Maryland for the purpose of calculating the company's tax bill. This practice is often called the throwback rule, because profits are "thrown back" to the state where a business is located. Adopting the throwback rule would put small companies that primarily do business inside Maryland on more equal footing with large corporations that sell into other states.

Most states that levy a corporate income tax already use the throwback rule, from nearby West Virginia to economic powerhouses like California. While the bill would increase some corporations' tax responsibilities, it is not likely to have a significant effect on their bottom lines. State taxes are only a small part of most companies' costs.

We must begin to seek other ways of increasing revenues in Maryland to meet the needs of its citizens. Today, we see state employees working more with less and enduring short-staffing and excessive overtime due to lack of revenues. Legislation like HB 473 attempts to further that quest to look closely at Maryland's tax structure and give away.

For these reasons, we urge the committee a favorable report on HB 473