MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Corporate Tax Cut Would Undermine the Foundation of Maryland's Economy

Position Statement in Opposition to House Bill 869

Given before the House Ways and Means Committee

Cutting Maryland's corporate income tax would make it harder for the state to invest in services vital to our economy. Over five years, this tax break would cost more than $1.2 billion in lost revenue, money the state now uses to fund services that our business community relies on, such as higher education and transportation. In addition, House Bill 869 would ultimately heighten the obstacles that block the path to prosperity for too many people, and Marylanders of color would bear the greatest costs. For these reasons, the Maryland Center on Economic Policy opposes House Bill 869.

Maryland's economy is built on the foundation of our shared investments—things like quality health care, strong public schools, and reliable transportation networks. Individuals and businesses alike help maintain that foundation through our taxes. If we imitate states like Kansas that have prioritized tax cuts over the investments needed to keep these foundations strong, we can expect our economy to falter. After policymakers slashed tax rates in Kansas, job growth lagged behind the nation and most of the state's neighbors.[i] Public services like education suffered, and credit agencies lowered the state's bond rating. Faced with these dismal results, Kansans reversed most of the cuts in 2017. Maryland should not repeat Kansas's failed experiment.

The evidence is clear that corporate tax cuts are an ineffective economic strategy:

- Business leaders consistently rate skilled workers, reliable transportation, and quality of life as among the most important factors they consider when choosing where to locate.[ii] In one survey of founders of fast-growing companies, only 5 percent even mentioned tax rates as a factor in their location decisions. One reason taxes aren't businesses' top priority is that they pale next to cost drivers like payroll and real estate, with taxes only amounting to 2 to 3 percent of most businesses' costs.[iii]
- Most job creation comes from young, homegrown companies expanding—and most entrepreneurs launch a business in the state where they already live.[iv] Demand is a more important factor than taxes when these businesses consider expanding, especially because small in-state businesses pay less than 5 percent of all Maryland corporate income taxes.[v]
- Analysis by the global accounting and consulting firm Ernst & Young shows that total business taxes in Maryland are already below the national average and bring business more benefits per dollar paid than in most other states.[vi]

House Bill 869 would certainly benefit the large, multistate corporations that pay 80 percent of Maryland's corporate income tax—as well as their shareholders, many of whom live out of state. After the windfall they received from the 2017 federal tax law, these large corporations and wealthy individuals are already doing well. Choosing to give them a second round of tax breaks, rather than invest in the pillars of our economy, would make Maryland worse off.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make an unfavorable report on House Bill 869.

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Equity and Impact Analysis: House Bill 869 Would Worsen Roadblocks to Prosperity

The corporate income tax is Maryland's third-largest stream of state-source revenue. House Bill 869 would take a large chunk out of the state's general fund—which supports investments such as education, health, and public safety—as well as special funds that support transportation and higher education. To satisfy the balanced budget requirement in our state constitution, policymakers would have to choose between cutting essential services and increasing other taxes. Research by state analysts shows that corporate tax cuts paid for with budget cuts would kill jobs and shrink Maryland's economy for years.[vii]

The service reductions forced by House Bill 869 would heighten the economic roadblocks facing people of all racial and ethnic backgrounds, with Marylanders of color bearing the greatest costs.

- Reducing our health care budget would likely require scaling back Medicaid. This policy choice would undermine our recent strides in increasing insurance coverage and disproportionately harm Black and Latinx Marylanders, among whom 1 in 4 are insured through Medicaid.
- If policymakers chose to cut funding for public schools, Black children would bear the greatest costs. More than half of Black students in Maryland attended a deeply underfunded school district as of 2015.[viii] Meanwhile, cutting higher education would put an affordable college degree further out of reach for many Marylanders, piling onto the effects of harmful federal policy.[ix]
- Cutting our transportation investments would entrench the barriers that stand between many Marylanders and a good job. Today, Black workers in some communities spend as much as 55 hours more commuting each year than their white neighbors.

Meanwhile, House Bill 869 would tilt our tax code further in favor of the wealthiest, predominantly white investors who hold most corporate stock. The wealthiest 1 percent of Maryland households already pay a smaller share of their income in state and local taxes than the rest of us.[x] A corporate tax cut would make our revenue system more lopsided, with nearly all the benefits going to the few households that have enough built-up wealth to hold corporate stock. Nationwide, white families hold $17 in stocks for every $1 held by Black families, and just 10 percent of white families control two-thirds of all wealth.[xi] This small sliver of the population would get the lion's share of benefits of House Bill 869.

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[ii] Geraldine Gambale, "32nd Annual Corporate Survey & the 14th Annual Consultants Survey," *Area Development*, 2018, http://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2018/32nd-annual-corporate-survey-14th-annual-consultants-survey.shtml
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[iv] Michael Mazerov and Michael Leachman, "State Job Creation Strategies Often Off Base," Center on Budget and Policy Priorities, 2016, https://www.cbpp.org/research/state-budget-and-tax/state-job-creation-strategies-often-off-base
[v] MDCEP analysis of Maryland Corporate Income Tax Statistics of Income, Tax Year 2015. Unistate corporations with Maryland modified income under $5 million (99.9 percent of all unistate corporations, 99.7 percent of taxable unistate corporations) paid $49.7 million out of $1.1 billion in corporate income taxes.
https://finances.marylandtaxes.gov/static_files/revenue/statisticsofincome/corporate/2015_Corp_SOI_Final.pdf
[vi] Andrew Phillips, Caroline Sallee, and Muath Ibaid, "Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2017," EY, 2018, https://www.ey.com/Publication/vwLUAssets/ey-total-state-and-local-business-taxes/$FILE/ey-total-state-and-local-business-taxes.pdf
[vii] "Economic Impacts of Reducing the Maryland Corporate Income Tax Rate," Department of Legislative Services, 2013, http://mgaleg.maryland.gov/Pubs/BudgetFiscal/2013-Corporate-Income-Tax-Analysis-Report.pdf
[viii] Christopher Meyer, "Budgeting for Opportunity: How Our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity/
[ix] See for example Erica Green, "DeVos to Eliminate Rules Aimed at Abuses by For-Profit Colleges," *The New York Times*, July 26, 2018, https://www.nytimes.com/2018/07/26/us/politics/betsy-devos-for-profit-colleges.html
[x] Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, and Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, 2018, https://itep.org/wp-content/uploads/whopays-ITEP-2018.pdf
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