

MARYLAND FAIR FUNDING COALITION

Testimony in Support of Senate Bill 511 Senate Budget and Taxation Committee

Combined Reporting and Ending Corporate “Nowhere Income”

The Maryland Fair Funding Coalition (MFFC) is a growing coalition of twenty-five organizations across the state who are committed to the state raising revenue to sustainably provide the resources it needs to make significant new investments in education funding and other essential services.

The MFFC supports proposals focused on eliminating loopholes and tax breaks that benefit special interests and fixing our upside-down tax code, which allows the wealthiest individuals to pay the smallest share of their income in state and local taxes. Fixing our tax system will support significant new state investments in education and ensure that large corporations and wealthy individuals are paying their share for the public services we all rely on.

Our coalition supports SB511, which closes *two* major corporate tax loopholes by: 1) enacting combined reporting, and 2) ending corporate “nowhere income.”

Enacting combined reporting would change how corporate income tax is calculated and provide a more complete and accurate accounting of the profits corporations earn from their activities in Maryland than the current method. This legislation prevents companies from reducing their taxable profits by artificially shifting revenue out of state by treating a parent company and its subsidiaries as one corporation for state income tax purposes.

Additionally, this legislation ends “nowhere income,” which closes another loophole that shields some corporate profits from taxation. Maryland’s corporate income tax is calculated using a formula intended to measure the portion of a corporation’s business activities that occur in Maryland. This system helps to prevent multiple states from taxing a business’s profits.

However, due to a federal law passed in the 1950’s, when a company located in Maryland makes sales into another state, this income is sometimes not subject to taxation in *any* state and it becomes “nowhere income.”

If enacted, these policies could generate more than \$170 million in annual revenue for the state once fully implemented. With a wide range of state services stretched thin as a result of the pandemic, the best way to support needed investments in education is to reform Maryland’s tax code to make it more effective and more equitable.

We must choose whether to commit to the investments necessary to create a world-class education system in Maryland, or to instead continue to prioritize tax breaks that benefit

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powerful special interests but do nothing to help our economy. Our coalition urges our legislators to commit to our students and the future of our economy. Maryland students cannot wait.

Therefore, we urge a favorable report on Senate Bill 511