



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

HB 330 - EFFECTIVE CORPORATE TAX RATE TRANSPARENCY ACT OF 2021

TESTIMONY OF DELEGATE LORIG CHARKOUDIAN

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Chair Kaiser, Vice Chair Washington, and Members of the Ways and Means Committee

Many corporations in Maryland are not paying their fair share in income taxes. Maryland currently has a corporate income tax rate of 8.25%. However, few companies actually pay this rate and in some cases, pay none at all¹. According to data collected by the Office of the Comptroller, in 2015 at least 51 of the 150 largest corporations in Maryland paid no corporate income taxes.²

Companies located or operating in Maryland are able to pay a lower rate by:

1. Taking advantage of various loopholes in Maryland's laws.
2. Taking advantage of various Maryland-specific tax incentives (like excessively generous apportionment rules and tax credits).
3. Taking advantage of federal tax breaks that flow into Maryland's tax code.

The State of Maryland currently has no mechanism that allows policymakers and the public to know the effective tax rates at which corporations are taxed. It is important that this data be calculated so that legislators can understand Maryland's actual corporate tax rates, the financial effects of tax credits on Maryland tax revenue, and how Maryland compares to other states in these metrics.

HB330 would compel corporations to calculate their effective tax rate by applying Maryland's apportionment formula to book income and not just taxable income, since taxable income is reduced in the ways listed above. Book income, according to generally accepted accounting principles (GAAP), represents the true income of a corporation. To find their effective tax rate, the corporation would simply divide the amount they pay in taxes in a given year by their book income.

¹ "U.S. Corporations Pay a Far Lower Effective Tax Rate than the Statutory Rate Would Indicate-and a Recent CBO Study Doesn't Actually Contradict This," Economic Policy Institute, August 10, 2017, <https://www.epi.org/blog/cbo-study-shows-that-u-s-corporations-pay-a-far-lower-effective-tax-rate-than-the-statutory-rate-would-indicate/>.

² Maryland Comptroller, Letter to Sen. Paul Pinsky. Jan 22, 2018. <https://drive.google.com/open?id=1W5QWzjuuGm6DWGmjAsurcnN4wLwSwQ9U>

The Comptroller will then compile and send an annual report by March 1 to the Governor and the General Assembly that identifies the average effective tax rate for all publicly traded corporations required to file the statement, with a breakdown of the distribution of corporations by effective tax rate, average reported book income, category, its size in income, payroll, and gross receipts.

This legislation does not change the actual taxes paid. However, this legislation provides sorely needed transparency to state officials, corporations, and the general public regarding the status of Maryland's tax climate. It gives Maryland a means to compare its true corporate tax rates to those of other states. It helps expose costly loopholes and extraneous credits that reduce state revenues. Most important, it enables Maryland to better identify, navigate, and solve policy challenges and improve economic competitiveness.

I respectfully request a favorable report on HB330.