Increased Corporate Tax Transparency would Discourage Tax Avoidance Schemes

Position Statement in Support of House Bill 330

Given before the House Ways and Means Committee

Maryland policymakers can't make good decisions about the future of our state without good information. The Maryland Center on Economic Policy supports House Bill 330 because it would provide more information about the actual tax rate corporations are paying in Maryland and help ensure that state policies are asking corporations pay their fair share in taxes.

Maryland's current statutory tax rate for corporations is 8.25 percent. However, the reality is that most large, multi-state corporations actually pay a far lower effective tax rate – the percentage of their total income they are paying in taxes.[i] This is due to the special tax breaks and loopholes inserted into our tax system by special interest groups. Multistate and multinational corporations operating within Maryland can use tax-avoidance strategies to limit their tax responsibility in Maryland. This comes at the cost of public investments like transportation, education, and healthcare.

There are a number of loopholes and strategies in Maryland's tax system that corporations use to avoid paying taxes. Due to provisions in the federal Tax Cuts and Jobs Act, for example, multinational corporations don't pay domestic corporate taxes on their foreign profits.[ii] There are also a large number of tax credits that Maryland businesses are able to take advantage of. Additionally, if corporations suffer a financial loss in a certain year, they are able to offset taxes for that year.[iii] Maryland does not require combined reporting for large corporations and their subsidiaries, as 28 other states do, which would close one of the loopholes that allows large, multistate corporations to reduce their profits on paper. Tax loopholes like these serve as a way for corporations to avoid responsibility for the investments that allow Maryland to thrive.

House Bill 330 will provide legislators with more accurate information to base future decisions on. Right now we know that about one-third of the largest corporations in Maryland pay no taxes in a given year, but policymakers can't assess trends or assess the cause. By requiring corporations to file a statement identifying the corporation's effective tax rate, House Bill 330 will allow policymakers and the general public to better assess state tax policies and make more informed decisions. It could allow policymakers to close the loopholes in the system that have eroded the corporate income tax base, and ensure that the corporate sector is paying its appropriate share of taxes.

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 330.

Equity Impact Analysis: House Bill 330

Bill summary

House Bill 330 requires publicly traded corporations to file a statement identifying the corporation's effective tax rate and an explanation of the calculation of the effective tax rate.

Background

There are a number of loopholes in Maryland's tax system that corporations use to avoid paying taxes and a large number of tax credits that Maryland businesses are able to take advantage of. Maryland does not require combined reporting for large corporations and their subsidiaries as most states do, allowing for one of many loopholes. Additionally, if corporations suffer a financial loss in a certain year, they are able to offset their tax burdens for that year. About one-third of the largest corporations in Maryland pay no taxes in a given year. As a result of these strategies and loopholes, most large, multi-state corporations actually pay an effective tax rate that is far lower than Maryland's current statutory tax rate for corporations.

Equity Implications

House Bill 330 would allow policymakers and the general public to better assess state tax policies and make more informed decisions. This information could be used to help close the loopholes and ensure that the corporate sector is paying its appropriate share of taxes.

Ensuring that corporations pay their taxes would generate revenue that could be invested into essential services including education, health care, and transportation. These services are especially vital for Marylanders who continue to suffer from the discriminatory policy that remains today. Investing in these basic services strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

Impact

House Bill 330 would likely **improve racial and economic equity** in Maryland.

---

i "U.S. corporations pay a far lower effective tax rate than the statutory rate would indicate" *Economic Policy Institute*, 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/

ii "Territorial Tax Is a Zero Rate on U.S. Multinationals' Foreign Profits, Threatens U.S. Revenues and Wages" *Center on Budget and Policy Priorities,* 2017 https://www.cbpp.org/research/federal-tax/territorial-tax-is-a-zero-rate-on-us-multinationals-foreign-profits-threatens

iii Peter Franchot, "A Guide to Maryland Business Tax Credits" Comptroller of Maryland, 2013 http://www.perryvillemd.org/sites/perryvillemd/files/file/file/2013_tax_credit_guide.pdf