

February 9, 2022

Testimony on House Bill 457
Corporate Income Tax - Throwback Rule and Combined Reporting
House Ways and Means Committee

Position: Favorable

Maryland Nonprofits is a statewide association of more than 1300 nonprofit organizations and institutions. As a member of the Fair Funding Coalition we strongly urge you to support House Bill 457 to make our system of business taxation more equitable.

House Bill 457 closes *two* major corporate tax loopholes by: 1) enacting combined reporting, and 2) ending corporate “nowhere income.” Both of these changes address aspects of our tax system that allow large, multi-state corporations to use accounting gimmicks to avoid paying Maryland taxes. While these practices are currently legal in Maryland, most other states have already closed these loopholes. Of the 150 largest corporations in the State, **about one third pay zero in state taxes in a given year**, according to the Maryland Comptroller’s Office.

Enacting combined reporting would provide a more complete and accurate accounting of the profits corporations earn from their activities in Maryland than the current method of calculating the corporate income tax. This legislation would treat a parent company and its subsidiaries as one corporation for state income tax purposes, preventing companies from artificially shifting profits on paper to an out-of-state subsidiary.

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 1950s, 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.” Under HB 457, any such profits would be considered income on the corporation’s Maryland taxes.

House Bill 457 would correct both of these problems, and help put smaller corporations with no presence outside of Maryland on a more equal tax footing with larger companies that operate in many states. Main Street businesses—which are responsible for most of the job creation in Maryland—cannot afford to spend millions developing these complicated tax avoidance structures, but their large competitors can, and in doing so gain an unfair advantage. This bill would level the playing field for local business, protecting local jobs.

We urge you to give HB 457 a favorable report.