

MARYLAND FAIR FUNDING COALITION

February 9, 2022

Testimony in Support of House Bill 457 House Ways and Means Committee

Corporate Income Tax - Throwback Rule and Combined Reporting

The Maryland Fair Funding Coalition is a coalition of more than 30 organizations across the state that are committed to policies that make our tax system more equitable and allow the state to raise sufficient revenue to sustain the essential public services Maryland families and communities need to thrive.

The coalition supports proposals that eliminate loopholes and tax breaks that benefit special interests and fix 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 ensure that large corporations and wealthy individuals are paying their fair share for the public services we all rely on.

Our coalition supports HB 457, which 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.

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.

Maryland’s current corporate tax laws give an unfair advantage to large, profitable corporations over our local Maryland businesses. As a result, about one-third of the 150 largest corporations operating in the state have paid zero income taxes in recent years, according to data from the Comptroller’s Office. HB 457 would ensure all businesses operating in the state

are contributing their fair share to the public services that make Maryland a great place to do business, like good public schools, colleges and universities and transportation networks.

If enacted, these policies could generate more than \$170 million in annual revenue for the state once fully implemented, providing sustainable revenue that can support Marylanders needs over the long term.

We must choose whether to make a long-term commitment to good schools and other investments necessary to allow communities in all corners of the state to thrive, or to instead continue to prioritize tax breaks that benefit powerful special interests but do nothing to help our economy. Our coalition urges our legislators to commit to Maryland families and the future of our economy.

Therefore, we urge a favorable report on House Bill 457