Testimony to the House Ways and Means Committee
HB 457: Corporate Income Tax - Throwback Rule and Combined Reporting
Position: Favorable

February 9, 2022

The Honorable Vanessa E. Atterbeary, Chair
House Ways & Means Committee
Room 131, HOB
Annapolis, MD 21401
cc: Members, Ways & Means Committee

Chair Atterbeary and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances economic rights and financial inclusion for Maryland consumers through research, education, direct service, organizing, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

We are in support of HB 457. This bill 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 could generate more than $170 million in annual revenue for the state by ensuring all businesses operating in the state are contributing their fair share. This revenue will support public services that make Maryland a great place to do business, like good public schools, colleges and universities and transportation networks.

For these reasons we support HB457 and urge a favorable report.

Thank you,
Isadora Stern

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