MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Tax Policy Should Reflect What is Best for Maryland, not Individual Corporations

Position Statement in Opposition to House Bill 321

Given before the House Ways & Means Committee

Prudent tax policy should ensure the state has the resources it needs and that we have a balanced tax code asking everyone to pay their fair share for the public investments that form the foundation of thriving communities. House Bill 321 takes the state down a risky path by adding another special interest carve-out that only benefits a handful of large, multistate corporations, at the expense of the revenues we need to make our state function. For these reasons, the Maryland Center on Economic Policy opposes House Bill 321.

A few years ago, the General Assembly passed legislation that phases in a single sales factor formula for calculating corporate income taxes. This approach means the amount of a company's business income that is subject to Maryland taxation is calculated using its percentage of sales in the state. This policy allows large, multistate corporations to calculate their taxes based only on the sales they make in Maryland, without considering their operations here. In many cases, this absolves corporations' responsibility to pay for public services that make their businesses possible—from schools to train their workforce to fire protection for their facilities.[i]

House Bill 321 attempts to use real dollars to offset revenue losses that exist only on paper, which some companies have claimed could hurt their stock prices. Corporate managers often try to boost the near-term profits they report to stockholders by claiming accelerated depreciation when calculating tax liability, meaning they end up deducting less annual depreciation in later years than they otherwise would have. House Bill 321 would grant corporations that received the benefits of claiming accelerated depreciation an additional offsetting tax deduction that will also reduce their real tax liability.

Further, there is no evidence that Maryland's adoption of single sales factor has had any negative effects on the corporations asking for special treatment. More than two dozen states have switched to single sales factor apportionment, but none has enacted this kind of deduction. Maryland also did not use such a policy when it enacted single sales apportionment for manufacturing businesses.

According to the Comptroller's office, House Bill 321 would benefit fewer than five large, multistate corporations.[ii] This approach to policy sets a dangerous precedent of providing special tax breaks to individual companies following any change in corporate tax policy, building on the many other tactics large, profitable, multistate corporations can already use to minimize their tax liability in Maryland.

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While the revenue losses from the enactment of the bill would not begin for 10 years, Maryland will need sufficient tax revenue to support the investments in education, transportation, healthcare, and other aspects of our community that will improve Maryland in the long term.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make an unfavorable report on House Bill 321.

Equity Impact Analysis: House Bill 321

Bill summary

House Bill 321 adds an additional special interest policy that benefits less than five large, multistate corporations, at the expense of vital revenue needed to address the needs of the state of Maryland as a whole.

Background

Large, multistate corporations have used a number of tactics to minimize their tax liabilities in Maryland over the years and House Bill 321 would only add to these strategies.

- A few years ago, the General Assembly passed legislation that calculates corporate income taxes using a single sales factor formula. This means that the company's business income that is subject to Maryland tax is only the sales that are made in the state of Maryland. The policy disregards the company's operations in the state of Maryland that they profit on elsewhere, removing their responsibility to pay for the public services that enable their business to be profitable.
- Corporate managers often try to increase their short-term profits they report to stockholders by claiming accelerated depreciation when calculating tax liability, which means they end up deducting less annual depreciation in later years than they would have otherwise. House Bill 321 would grant these corporations an additional offsetting tax deduction that will also reduce their real tax liability.

Equity Implications

- Corporate tax loopholes primarily benefit the small number of wealthy households who hold the bulk of corporate stock and other financial assets. Household wealth in the United States has been lopsided as a result of historically racist policies. Implementing policies that will enable huge, multistate corporations to reduce their tax liabilities will come at the expense of Marylanders who are financially less well-off. This is the case, as these corporations' reduced tax liabilities, put greater responsibilities on people who derive their income from work than on those whose income comes from wealth, growing the barriers that hold back Marylanders of color
- Implementing another policy that will relieve large multistate corporations of their taxation responsibilities will reduce the funds that could be used to invest in things like better schools, reliable transportation, and improved healthcare. Investing in these vital needs strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

Impact

House Bill 321 would likely **worsen racial and economic inequity** in Maryland.

[i] Michael Mazerov and Michael Leachman, "State Job Creation Strategies Often Off Base," Center on Budget and Policy Priorities, February 2016. http://www.cbpp.org/research/state-budget-and-tax/state-job-creation-strategies-often-off-base

[ii] Fiscal and Policy Note for Senate Bill 458 (Revised for Third Reader), Maryland Department of Legislative Services, 2019. http://mgaleg.maryland.gov/2019RS/fnotes/bil_0008/sb0458.pdf