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Testimony on Senate Bill 576
Corporate Income Tax - Combined Reporting
Senate Budget and Taxation Committee

Position: Favorable

Maryland Nonprofits is a statewide association of more than 1500 nonprofit organizations and institutions. As a member of the Fair Funding Coalition we strongly urge you to support Senate Bill 576 to make our system of business taxation more equitable by adopting the "combined reporting" method for corporations to determine their income tax lability to the State of Maryland.

Combined reporting would require corporations to include all parent and subsidiary companies operating in the United States when calculating their corporate income tax responsibility, a reform known as combined reporting. This method closes the door to a range of currently legal accounting tactics businesses use to avoid paying taxes to Maryland. For example, a company may establish a subsidiary in a state with a lower tax rate and shift its earnings there on paper by purchasing goods from the subsidiary at artificially high prices. Combined reporting essentially treats a parent company and its subsidiaries as one corporation for state income tax purposes. Doing so prevents companies from reducing their taxable revenue by artificially shifting it out of state.

Combined reporting helps 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.

Combined reporting is already well established across the country. There are 28 states plus the District of Columbia using combined reporting today – a diverse group that include Alaska, California, Kentucky, Massachusetts, and West Virginia. Because it is so common, most large corporations that would be subject to these provisions already have significant experience complying with it elsewhere. **Nine-tenths of the largest employers in Maryland already operate – or are part of a corporate family that operates – in combined reporting states.** Most of these companies operate in California, the strictest combined reporting state of all. Three fourths of them operate in multiple combined reporting states.

Legislative analysts in 2022 estimated that adopting combined reporting would increase state revenues by upward of $160 million per year once fully implemented, enabling the state to invest more in public health, education, and other essential services that we will need to rebuild hollowed-out public services and strengthen the foundations of our economy in the long run. Cleaning up our tax code by removing special interest tax breaks is the best way to raise the resources Maryland needs to build world-class public schools, a healthy population, and modern transportation infrastructure.

Maryland has a lot to offer as a place to do business, and will retain these advantages with corporate tax reforms that support increased investments in the foundation of our economy:

- we have the highest median household income nationwide;
- our workforce is highly educated, with the second-highest share of advanced degree holders among the 50 states;
- we have the second-highest share of millionaire households nationwide – after New Jersey, a combined reporting state;
- and our mix of taxes and the services they support is the second-most favorable to business nationwide, according to the accounting and consulting firm Ernst and Young. Maryland businesses get $1.43 in benefits for every dollar they pay in state and local taxes.

Senate Bill 576 represents an important step forward for Maryland's revenue system. If enacted, it would help us make the investments needed to recover from the pandemic and build Maryland's future prosperity. **We urge you to give this bill a favorable report**