



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

HB 39- EFFECTIVE CORPORATE TAX RATE TRANSPARENCY ACT OF 2023

FEBRUARY 2, 2023

Chair Atterbeary, Vice Chair Washington, and Members of the Ways and Means Committee,

Maryland currently has a corporate income tax rate of 8.25%. However, few large, multi-state companies actually pay this rate and, in some cases, these large corporations pay no state taxes at all. Based on the most recent aggregate data from the Comptroller's office in 2018, at least 48 of the 150 largest corporations in Maryland paid no corporate income taxes.¹ Large businesses in Maryland are able to pay a lower rate by:

- 1) Taking advantage of various loopholes in Maryland's laws (like its failure to require combined reporting)
- 2) taking advantages of various Maryland-specific tax incentives (like excessively generous apportionment rules and tax credits),
and
- 3) taking advantage of federal tax breaks that flow into Maryland's tax code.

These vulnerabilities in Maryland's tax code can be rectified by this legislation. This bill compels corporations to calculate their effective tax rate by applying Maryland's apportionment formula to book income and not just taxable income. Taxable income is often reduced using the strategies above. Book income, according to generally accepted accounting principles (GAAP), more closely represents the true income of a corporation.

To find their effective tax rate, the corporation would divide the amount they pay in taxes in a given year by their book income. This simple calculation will provide a more accurate determination of a corporation's effective tax rate.

The Comptroller will then compile and send an annual report by March 1 to the Governor and the General Assembly that identifies the average effective tax rate for all publicly traded corporations in the state on an aggregate, anonymous basis with size and industry breakdowns and a discussion of the major explanatory factors.

I respectfully request a favorable report on HB 39.

¹ Maryland Comptroller, Letter to Sen. Paul Pinsky. Jan 20, 2022