MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

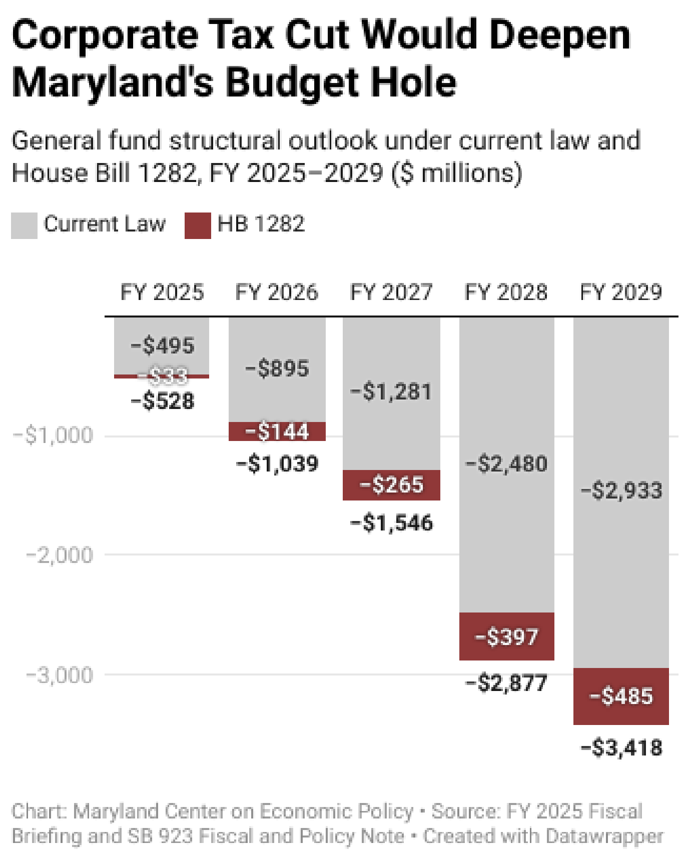
FEBRUARY 29, 2024

Despite False Promises, Irresponsible Corporate Tax Cut Would Set Maryland Back

Position Statement in Opposition to House Bill 1282

Given before the House Ways and Means Committee

Sufficient tax revenue is essential for supporting the investments that make Maryland a good place to live, work, and do business – such as schools to train tomorrow's workforce, roads to bring workers to jobs and goods to market, and courts to enforce contracts. Our current fiscal headwinds threaten all of these foundations of our economy. Cutting the corporate income tax would deepen this hole, costing the state and local governments more than $1.7 billion over the next five years.[i] This irresponsible tax cut would ultimately have the opposite of its intended effect, weakening our economy in the long term. For these reasons, the Maryland Center on Economic Policy opposes House Bill 1282.



Lawmakers this year face a stark choice. Under current law, we are expected to reach a general fund structural deficit of $2.9 billion by FY 2029 and almost certainly higher in future years. The math is simple: To meet the state's constitutional balanced budget requirement, we will need to either raise significant new revenue or cut deeply into public services like education, child care, and transportation. House Bill 1282 would make this predicament worse by adding $1.3 billion to the general fund deficit over the next five years. On top of that, the bill would eliminate $355 million in state funding for higher education and transportation during this period, plus $52 million in much-needed local transportation funding.

House Bill 1282 would force cuts to precisely the investments that make Maryland's economy strong. Surveys of corporate leaders make clear that taxes are not among their most important considerations when deciding where to locate.[ii] They place more value on factors like access to skilled labor, highway access, and quality of life, all of which depend on sufficient public investment. Shareholders and executives may wish to pay less in taxes, but the revenue loss would ultimately make Maryland a less attractive place to do business.

House Bill 1282 would also stifle opportunity and worsen structural barriers that hold back Marylanders of color. For example:

- Without significant new revenue, the current fiscal outlook will make it all but impossible to keep the promise of the Blueprint for Maryland's Future, which includes major reforms to make school funding more equitable. The last time Maryland lawmakers rolled back school funding improvements, this decision left more than half of the state's Black students going to school in a district that was underfunded by 15% or more.[iii] This is the most likely result of the revenue loss House Bill 1282 would bring about.

- House Bill 1282 would worsen the state's already severe shortfall in transportation revenue, preventing the maintenance, repairs, and expansions needed to ensure Marylanders have reasonable commutes to good jobs. Due in large part to inadequate public transportation infrastructure, Black workers and other workers of color in Maryland typically face longer commutes than their white neighbors.[iv] House Bill 1282 would make it that much harder to right this wrong.

Corporate Tax Cut Would Hit Higher Ed, Transportation, Local Governments

Five-year cumulative revenue loss under House Bill 1282 by fund, FY 2025–2029 ($ millions)

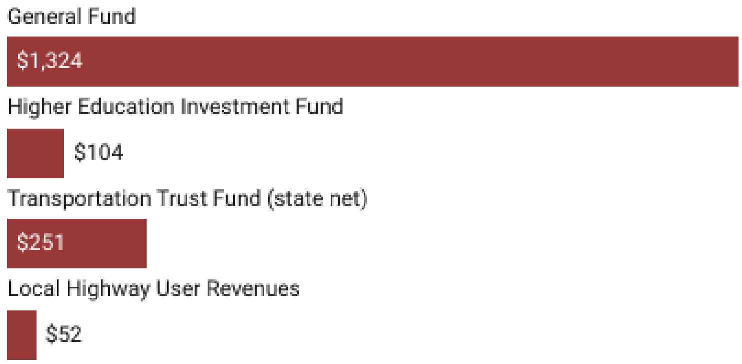


Chart: Maryland Center on Economic Policy • Source: SB 923 Fiscal and Policy Note • Created with Datawrapper

The fact is, **Maryland's tax code is already highly favorable to business**. According to an annual report prepared by the global accounting and consulting firm EY for the anti-tax Council on State Taxation:[v]

- State and local business taxes are a smaller share of private-sector economic output in Maryland than in 33 out of 50 states, including *all* of Maryland's neighbors, plus the District of Columbia.

EY: Business Is a Smaller Share of Maryland's Tax Mix than in Any Other State

Business share of total state and local taxes, FY 2022

State	Rank	Business Share
Maryland	51	31.8%
Virginia	39	40.6%
Pennsylvania	31	41.9%
West Virginia	13	51.6%
District of Columbia	11	53.0%
Delaware	8	55.5%
United States		44.6%

Bar chart is scaled to the maximum business share across all states (ND, 76.3%)

Table: Maryland Center on Economic Policy • Source: EY FY22 Business Tax Report • Created with Datawrapper

- Business is a smaller contributor to Maryland's tax mix than in *any* other state.
- Maryland is tied with Utah for the **most public investments benefiting business per dollar** paid in taxes, nationwide.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make an unfavorable report on House Bill 1282.

Equity Impact Analysis: House Bill 1282

Bill summary

House Bill 1282 would cut Maryland's corporate income tax rate from 8.25% to 6.25% by 2028.

Background

Maryland's corporate income tax is projected to raise $2.3 billion in FY 2025. A portion of revenue is distributed to the Higher Education Investment Fund and the Transportation Trust Fund, while the majority supports the general fund.

According to an annual report prepared by the global accounting and consulting firm EY:

- State and local business taxes are a smaller share of private-sector economic output in Maryland than in 33 out of 50 states, including all of Maryland's neighbors, plus the District of Columbia.
- Business is a smaller contributor to Maryland's tax mix than in any other state.
- Maryland is tied with Utah for the most public investments benefiting business per dollar paid in taxes nationwide.

Maryland belongs to the minority of states that tax corporate income on a separate reporting basis, costing the state more than $200 million annually in forgone revenue.

Equity Implications

The revenue loss from enacting House Bill 1282 poses significant equity concerns:

- Without significant new revenue, the current fiscal outlook will make it all but impossible to keep the promise of the Blueprint for Maryland's Future, which includes major reforms to make school funding more equitable. The last time Maryland lawmakers rolled back school funding improvements, this decision left more than half of the state's Black students going to school in a district that was underfunded by 15% or more. This is the most likely result of the revenue loss House Bill 1282 would bring about.
- House Bill 1282 would worsen the state's already severe shortfall in transportation revenue, preventing the maintenance, repairs, and expansions needed to ensure Marylanders have reasonable commutes to good jobs. Due in large part to inadequate public transportation infrastructure, Black workers and other

workers of color in Maryland typically face longer commutes than their white neighbors. House Bill 1282 would make it that much harder to right this wrong.

Furthermore, cutting the corporate tax rate would primarily benefit the small number of wealthy households that hold the bulk of corporate stock and other financial assets. Multiple intersecting areas of historical and continuing racist policy have made household wealth in the United States heavily lopsided. Analysis in recent years shows that the wealthiest 10 percent of white households nationwide (about 6 percent of all households) control nearly two-thirds of all built-up wealth.[vi] While the harm from House Bill 1282 would be widespread, the benefits would be highly concentrated.

Impact

House Bill 1282 would likely **worsen racial and economic inequity** in Maryland.

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i House Bill 1282 Fiscal and Policy Note.

ii MDCEP analysis of *Area Development* magazine 33rd to 37th annual corporate surveys. Access to skilled labor, highway access, and quality of life ranked higher than corporate income tax rates on average during this period. Corporate taxes appeared among the top five factors once, less often than skilled labor (all five years), highway access (four out of five years), and quality of life (three out of five years).

iii Christopher Meyer, "Budgeting for Opportunity: How our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity,," Maryland Center on Economic Policy, 2018, https://www.mdeconomy.org/budgeting-for-opportunity-health-education-transportation/

iv Christopher Meyer, "Budgeting for Opportunity: Maryland's Workforce Development Policy Can Be a Tool to Remove Barriers and Expand Opportunity," Maryland Center on Economic Policy, 2021, https://www.mdeconomy.org/budgeting-for-opportunity-workforce/

v Andrew Philips and Caroline Sallee, "FY22 Business Tax Report: A Comprehensive State and Local Tax Review," EY, 2023, https://www.ey.com/en_us/tax/state-and-local-businesses-taxes-for-fy22

vi Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams, "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy