MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Position Statement Opposing Senate Bill 8

Given before the Senate Budget and Taxation Committee

Corporate Tax Cut Would Harm Public Services, Hurt Economic Growth, and Increase Inequality

The Maryland Center on Economic Policy opposes Senate Bill (SB) 8, which would reduce the state corporate income tax rate by .45 percentage points each year for 5 years, from 8.25 percent to 6 percent. Creating the conditions for a strong state economy requires that everyone, individuals and businesses alike, help support important resources such as public safety, reliable roads and bridges, and healthy residents. A corporate income tax cut would rob Maryland of crucial resources for higher education, transportation and other services vital to a strong economy, while failing to produce the broad prosperity supporters predict.

The corporate income tax is Maryland's third largest source of revenue. Over the past ten years, the average revenue from the corporate income tax has been $819 million per year—roughly three times what the state spends on community colleges.[1] About three-quarters of the funds raised from the corporate income tax over the past 10 years have gone to the state's general fund – helping to balance the budget – while about 25 percent has gone to dedicated special funds. Since 2007, all corporate income tax revenue designated to special funds has gone to transportation or higher education, services vital to our economy.

Last October, the Department of Legislative Services (DLS) demonstrated that cutting Maryland's corporate income tax would come at a cost.[2] DLS projected that the total cost to the state of a 1 percentage point corporate tax rate reduction would be just short of $1.4 billion over 10 years, and warned of the resulting hardships. Senate Bill 8, which would enact an even larger cut, would cost almost as much in half the time - $1.04 billion over five years.

Given the need to balance the budget, Maryland residents will pay for any corporate income tax rate reduction through spending cuts or increases in other taxes. According to the October DLS report, paying for reduced corporate income tax collections solely through reductions in state spending would result in net job losses for the foreseeable future and less personal income. On the other hand, raising taxes on other parts of Maryland's economy would increase costs for families and individuals, and unfairly shift the tax responsibility from wealthy owners of multi-state corporations to working families in Maryland. No matter what the proposal, the immediate result of cutting the corporate income tax rate would be reduced economic activity and a weaker economy in Maryland.

DLS did find that, 10 years from now, offsetting a corporate tax reduction by raising the sales tax might create 1,100 jobs. Yet there are well over 2.5 million jobs in Maryland, with tens of thousands being created each year under normal economic circumstances. Making the tax system in Maryland less equitable to create a few thousand jobs over a decade is not an acceptable tradeoff.

It should also be noted that while the negative effects of this bill would be felt immediately in Maryland, the companies that benefit from the corporate tax cut may not invest their additional revenue right away, if ever. Worse still, since many companies that pay the corporate income tax in Maryland are large multi-state operations, with shareholders spread across the nation, it is likely that a significant portion of the increased revenue these companies receive would be invested outside of the state. Indeed, the fiscal note for SB 8 calculates that the impact (including the benefit) of such a reduction on small businesses is minimal.[3]

Reducing the corporate income tax in Maryland would also increase inequality. According to analysis by the Institute for Taxation and Economic Policy (ITEP), if the corporate income tax were reduced one percentage point, the richest 1 percent of Maryland residents–those earning more than $500,000 a year–would get 45 percent of the benefit. Only 9 percent of the total share would go to Marylanders who make less than $70,000 a year, just under the median income. Low-income Maryland residents (those earning less than $23,000 a year) would see just 1 percent. Given that the benefits would go mainly to the well-off, and the costs would be borne by moderate- and low-income residents, Senate Bill 8 would amplify the disparity between Maryland's most and least fortunate.[4]

Companies want to do business in states with reliable and efficient infrastructure and where they can hire well-educated and healthy workers. Maryland's corporate income tax helps make those things possible while accounting for less than one-quarter of 1 percent of total costs for the corporations that are subject to it.[5] [6] [7] [8] Furthermore, businesses in Maryland get a dollar back in benefits for every 70 cents they invest in the state through taxes, a return of 14.3 percent, according to a study by Ernst & Young that ranked Maryland first in the nation in terms of business benefits received for taxes paid. Reducing the corporate income tax rate will only make it more difficult for Maryland to fund the services and infrastructure that businesses rely on.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee report Senate Bill 8 unfavorably.

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1 Average corporate income tax revenue is adjusted for inflation based on 2013 dollars.

2 Maryland Department of Legislative Services, "Economic Impacts of Reducing the Maryland Corporate Income Tax Rate," October 2013, http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/Corporate-Income-Tax-Analysis-Report-for-web.pdf

3 Department of Legislative Services, Fiscal and Policy Note, Maryland General Assembly 2014 Session, Senate Bill 8, http://mgaleg.maryland.gov/2014RS/fnotes/bil_0008/sb0008.pdf

4 Institute on Taxation and Economic Policy, "Who Pays: A Distributional Analysis of Tax Systems in All 50 States," Fourth Edition, January 2013, http://www.itepnet.org/whopays.htm

5 Mazerov, Michael. "Cutting State Corporate Income Taxes is Unlikely to Create Many Jobs," Center on Budget and Policy Priorities, September 14, 2010. http://www.cbpp.org/cms/?fa=view&id=3290.

6 Timothy Bartik, *Who Benefits from State and Local Economic Development Policy?* Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1991, p. 8.

7 Phillips, Andrew, Robert Cline, Caroline Sallee, Michelle Klassen, and Daniel Sufranski, "Total State and Local Business Taxes: State-by-state Estimates for Fiscal Year 2012," Council on State Taxation, 2013, http://www.cost.org/WorkArea/DownloadAsset.aspx?id=84767.

8 This is assuming that 50 percent of education spending benefits businesses. When the same study assumed that no education spending benefits businesses, it found that companies pay $2 in taxes for every $1 in Maryland government spending. Regardless of which weight education received, Maryland businesses got more benefits back for their taxes than businesses in any other state.