FEBRUARY 12, 2014

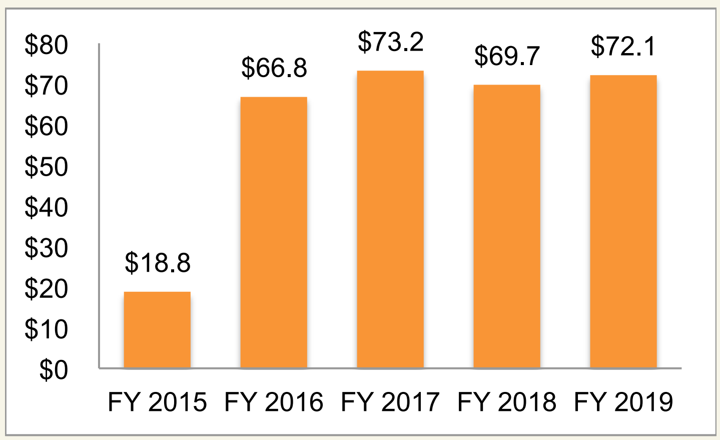
Position Statement Supporting Senate Bill 395

Given before the Senate Budget and Taxation Committee

Combined reporting will create a fair and effective corporate tax structure and generate needed revenue for Maryland.

The Maryland Center on Economic Policy supports Senate Bill 395, which would create a more fair, effective, and productive corporate tax system by establishing combined reporting for corporate income taxes in Maryland. Combined reporting provides a more complete and accurate accounting of the profits corporations earn from their activities in Maryland than does the current method, known as separate entity reporting. Combined reporting also 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 and shift its earnings there on paper by purchasing goods from the subsidiary at artificially low 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 also helps put smaller, locally-owned corporations with no presence outside of Maryland on a more equal tax footing with larger companies that operate in many states. This level playing field helps protect local jobs.

ESTIMATED ADDITIONAL REVENUE FROM COMBINED REPORTING



Source: Maryland Department of Legislative Services

Combined reporting will also have the benefit of raising net revenue for needed public services. Even though the recession is officially over, Maryland still faces high unemployment, stagnant family incomes, rising poverty and a state revenue shortfall. While corporate profits have improved, wages for Maryland's workers have stagnated, or worse, declined, especially for low-wage workers.[1]

1 Cooper, David. "Raising the Maryland Minimum Wage Will Benefit a Million Workers and Modestly Benefit the State's Economy," Economic Policy Institute, January 31, 2014, http://www.epi.org/blog/raising-maryland-minimum-wage-benefit-million

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If Maryland had already enacted the type of combined reporting required by Senate Bill 395 (the "Finnigan" method), it would have taken in nearly $300 million in additional revenue between 2006 and 2010, according to a study by the Maryland Office of the Comptroller.[2]

The Department of Legislative Services also estimated that Maryland would collect tens of millions of dollars in additional revenue annually in coming fiscal years if it implemented combined reporting, according to the Fiscal and Policy Note for Senate Bill 395.[3]

Our state faces serious and well-documented needs in education, healthcare, public safety staffing, environmental quality, and many other areas. Further cuts to such services will be even more damaging. The additional revenue from combined reporting will be crucial in preventing those cuts.

Combined reporting is well-established around the country. Twenty-three of the 45 states with corporate income and similar business taxes and the District of Columbia use combined reporting. Because it is so common, most large corporations that would be subject to a Maryland combined reporting law already have experience using it elsewhere.[4] Maryland will not be breaking any new ground with this proposal.

STATES WITH COMBINED REPORTING		
Alaska	Kansas	New Mexico
Arizona	Maine	New York
California	Massachusetts	North Dakota
Colorado	Michigan	Ohio
District of Columbia	Minnesota	Utah
Hawaii	Montana	Vermont
Idaho	Nebraska	West Virginia
Illinois	New Hampshire	Wisconsin

While Maryland will incur some administrative expenses to implement combined reporting, these costs fall dramatically after the first year of implementation, from $1.6 million in FY 2015 down to $64,000 in FY 2017, the Department of Legislative Services estimates. And these costs are expected to be more than offset by the revenue combined reporting is expected to generate.[5]

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee make a favorable report on Senate Bill 395.

2 Corporate income tax studies conducted for the Maryland Business Tax Reform Commission can be found on the Comptroller of Maryland's website: http://finances.marylandtaxes.com/Where_the_Money_Comes_From/Mandated_Reports_and_Studies/Corporate_Income_Tax_Study.shtml

3 Maryland Department of Legislative Services, Fiscal and Policy Note for Senate Bill 395, Maryland General Assembly 2014 Session, http://mgaleg.maryland.gov/2014RS/fnotes/bil_0005/sb0395.pdf

4 Mazerov, Michael and Mark Enriquez, "Vast Majority of Large Maryland Corporations are Already Subject to 'Combined Reporting' in Other States," Center on Budget and Policy Priorities, November 9, 2010, http://www.cbpp.org/cms/?fa=view&id=3317

5 Department of Legislative Services, 2014.