March 6, 2015

Business Relief and Tax Fairness Act Will Create A Fair and Effective Corporate Tax Structure

Given before the House Ways and Means Committee

The Maryland Center on Economic Policy Supports House Bill 663

House Bill 663 would create a fairer, more 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. 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 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 cannot afford to spend millions developing these complicated tax avoidance structures, but their large competitors can, and in so doing gain an unfair advantage. This bill would level the tax code playing field for local business, protecting local jobs. It would also provide some relief through the elimination of some annual filing fees.

Combined reporting is well-established around the country. Twenty-four 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 significant experience complying with it elsewhere. 90 percent 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 even operate in California, the strictest combined reporting state of all. Three fourths of them operate in multiple combined reporting states. These companies know how to comply and thrive within a combined reporting model. Maryland will not be breaking any new ground with this proposal.

Furthermore, the attributes that make Maryland attractive to large corporations will not be affected by this bill. We will still have a highly educated workforce, a strong intermodal
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transportation network, and high median income (which means Maryland customers have more money to spend). And we will still be close to the national capital. Business cannot simply move out of the state and find the same combination elsewhere. Furthermore, according to the accounting firm Ernst & Young, Maryland businesses get a better return on their tax dollar than those in any other state.

House Bill 663 supports Maryland’s business initiative by eliminating annual filing fees for small businesses and establishing combined reporting, leveling the tax code playing field for local businesses. This bill would thus help Maryland become a more competitive business state.

The Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 663.

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1 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