MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Position Statement Opposing House Bill 590

Given before the House Ways and Means Committee

Corporate Tax Cut Would Harm Maryland's Economic Growth

Because corporate tax cuts do not create jobs and build a strong economy, while reducing the resources needed to invest in what does, the Maryland Center on Economic Policy opposes House Bill (HB) 590, which would reduce the state corporate income tax rate in Washington and Allegany counties.

Creating the conditions for a strong state economy requires that everyone contributes their fair share toward education, transportation, safe communities and other building blocks of prosperity. Reducing the corporate tax rate to 4 percent from 8.25 percent in two counties would deprive Maryland of valuable resources without helping to produce the benefits predicted by supporters of the measure.

The corporate income tax, Maryland's third largest source of revenue, has brought in on average about $819 million a year over the past decade. [1] About three-quarters of that money has gone for a variety of needs as part of the state's general fund. The rest goes to special funds; since 2007, all of the corporate income tax revenue designated to special funds has gone to transportation and higher education, services vital to our economy.

The state Department of Legislative Services in 2013 projected that every 1 percentage point corporate tax rate reduction would cost the state nearly $1.4 billion over 10 years.

The harm from reducing corporate tax rates would be felt immediately in Maryland, as tax collections drop off. At the same time, there is no reason to expect that the corporations whose taxes will be reduced will invest that money right away, if ever. It has been shown over and over that a reduction in taxes does not promote hiring. Companies hire when there is an increase in demand for what they make or sell, regardless of the tax rates. Savvy business people do not expand just because they have a little more money. What does make a state more attractive to business is good schools, state of the art transportation, and other important services.

It should also be pointed out that many companies paying Maryland's corporate income tax are large multi-state operations, with shareholders spread across the nation. So it is highly likely that a significant portion of the increased profits these companies retain would be invested outside of the state.

Both Washington and Allegany counties have taken highly conservative approaches to budgeting their county resources. As a result, these counties have some of the lowest expenditures per capita in the entire state. Allegany County spends the second lowest amount per resident, with an expenditure per capita of $3376. While Washington County has the fifth lowest expenditures per capita amount out of the state's 24 counties, spending just $3516 per person; both falling well below the state average of $4659. [3]

Providing financial breaks to corporations within these counties would prioritize the prosperity of corporations over that of county residents by driving down county budgets.

Since 2004, there has been significant growth in the amount of corporate tax revenue contributed to the general fund. This increase in revenue has resulted in stronger support for education, health, and public safety. This

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increase in revenue can be attributed primarily to higher corporate profits over these years, with there being only one increase of the corporate tax rate in 2008 of just 1.5 percent.[4]

The interest in bringing more jobs to Washington and Allegany counties is understandable. The average incomes of residents there are among the lowest in the state. There is optimism on the part of some that the discovery of Marcellus Shale gas in the region could create 546 new jobs and $13.5 million dollars in wages, in Allegany County alone.[5]

Two things are important to point out here. One is that if fracking comes to western Maryland it will come regardless of the corporate tax rate. The other is that fracking would come with costs. Roads will need more maintenance and schools will need new classrooms and teachers. Environmental cleanup and health care costs will rise. Revenues from the corporate income tax will no doubt be needed to pay for harm reduction.

Reducing the corporate income tax in Maryland would also worsen the situation under which a small share of the state's households have seen big gains in income over recent years while most other people have seen their pay stagnate and many are struggling to get by. According to analysis by the Institute for Taxation and Economic Policy (ITEP), if the corporate income tax were reduced one percentage point on the state level, the wealthiest Maryland residents–those making more than $500,000 a year–would get 45 percent of the benefit. Only 9 percent of the total share would go to the half of Marylanders who make less than $70,000 a year. 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, HB 590 would amplify the disparity between Maryland's most and least fortunate.[6]

Companies want to do business in areas with reliable and efficient infrastructure and where they can hire well-educated, productive workers. Maryland's corporate income tax helps make those things possible while accounting for less than one-quarter of 1 percent of total costs of doing business for the corporations that are subject to it.[7][8][10] Reducing the corporate income tax rate will only make it more difficult for Maryland to invest in the services that are important to making a state attractive to businesses.

If this bill becomes law, Maryland residents will pay for the loss of revenue through service cuts or increases in other taxes, or a combination of the two. According to DLS, paying for reduced corporate income tax collections solely through reductions in state spending would result in job losses for the foreseeable future and lower personal income. On the other hand, raising taxes other taxes would increase costs for families, unfairly shifting responsibility from wealthy owners of multistate corporations to the people of 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.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee report House Bill 590 unfavorably.

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-TaxAnalysis-Report-for-web.pdf
3 Washington County FY 2014 Budget, "A Citizen's Guide to The Budget," 2014 http://www.washcomd.net/budget_finance/pdf/fy2014_citizens_guide_budget.pdf
4 The Maryland Board of Revenue Estimates Archives FY14-FY04, Comptroller of Maryland, http://finances.marylandtaxes.com/Where_the_Money_Comes_From/Board_of_Revenue_Estimates/Revenue_Estimates_1999_-_2010.shtml
5 The Regional Economic Studies Institute, "Impact Analysis of the Marcellus Shale Safe Drilling Initiative," May 2014, http://www.mde.state.md.us/programs/Land/mining/marcellus/Documents/RESI_Marcellus_Shale_Report_Final.pdf
6 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
7 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.
8 Timothy Bartik, Who Benefits from State and Local Economic Development Policy? Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1991, p. 8.
9 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.ey.com/Publication/vwLUAssets/EY-total-state-and-local-business-taxes-august-2014/$FILE/EY-total-state-and-local-business-taxes-august-2014.pdf.
10 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.