MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

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Corporate Tax Cut Would Harm Maryland's Economic Growth

Position Statement Opposing Senate Bill 846
Given before the Senate Budget and Tax Committee

A corporate income tax cut would deprive 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. It also won't boost job creation because corporate taxes are a very small share of a business's expenses. For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 846.

Creating the conditions for a strong state economy requires that everyone, individuals and businesses alike, help support important resources such as safe communities, reliable roads and bridges, and healthy residents. The claim that Maryland just has to endure a little short-term budget pain to see economic gains, relies on discredited economic theory. One only has to look to states like Kansas, where legislators bought into this too-good-to-be-true idea and slashed income tax rates in mid-2012. They are still waiting for the promised economic gains[i]. Meanwhile Kansas went from leading its region to trailing neighboring states on most measures of economic growth.

As multiple experts told the Maryland Economic Development and Business Climate Commission earlier this year, taxes represent only one item on the list of many things company owners and CEOs take into consideration when making business decisions. According to a report to the commission by Moody's Analytics, business taxes "prove not especially onerous in Maryland" and other factors such as utility costs are more important[ii].

The corporate income tax, Maryland's third largest source of revenue, has raised about $819 million a year over the past decade.[iii] About three-quarters of that money supports a variety of public investments in the economy as part of the state's general fund. The rest goes to special funds to help meet the state's transportation and higher education needs, which are also services vital to our economy.

In 2013, the Department of Legislative Services estimated that cutting the 8.25 percent corporate income tax rate by 1 percent would cost about $1.4 billion over 10 years. Because Senate Bill 846 proposes to reduce the rate even further, to 7 percent, the costs would be even greater.

The harm from reducing corporate tax rates would be felt immediately in Maryland, even though the cut would be phased in over three years. However, there is no reason to expect that corporations receiving the tax break will invest that money right away, if ever. Companies hire when there is an increase in demand for what they make or sell, regardless of tax rates. Savvy business people do not expand just because they have a slightly smaller tax bill. Furthermore, many companies paying Maryland's corporate income tax are large, multi-state operations, with shareholders spread across the nation. It is highly likely that investors outside of the state would capture a significant portion of the increased profits these companies retain.

Companies want to do business in areas with reliable and efficient infrastructure, a strong customer base, 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.[iv] [v] [vi] 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 have to 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 and lower personal income for the foreseeable future. On the other hand, raising 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 Senate Budget and Tax Committee report Senate Bill 846 unfavorably.

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[i] "Tax Cuts Taking a Toll on Kansas Communities," Kansas Center for Economic Growth, April 2015. http://realprosperityks.com/wp-content/uploads/2013/02/tax_cuts3.pdf

[ii] Moody's

[iii] Average corporate income tax revenue is adjusted for inflation based on 2013 dollars.

[iv] 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.

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

[vi] 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.