Corporate Tax Cut Would Harm Maryland's Economic Growth

Position Statement Opposing House Bill 1018
Given before the House Ways and Means Committee

A corporate income tax cut would cost Maryland hundreds of millions of dollars in lost revenue, depriving us of crucial resources for higher education, transportation, and other services vital to a strong economy. At the same time, it would fail to produce the job creation or broad prosperity supporters predict. For these reasons, the Maryland Center on Economic Policy opposes House Bill 1018.

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 from tax cuts 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, and lawmakers there are now working to reinstate taxes and begin reversing the damage to the state's economy. Cutting our corporate tax rate by a quarter would lead Maryland down a similar road.

State and local taxes are a relatively minor cost for most businesses, and they represent only one item on the list of things company owners and CEOs take into consideration when making business decisions.[ii] Surveys show that executives are more concerned about access to a skilled workforce, reliable transportation, and a high quality of life than they are about taxes.[iii] According to a 2015 report prepared by Moody's Analytics for the Maryland Economic Development and Business Climate Commission, business taxes "prove not especially onerous in Maryland" and other factors such as utility costs are more important.[iv]

The corporate income tax, Maryland's third-largest source of revenue, is expected to raise about $1 billion next year.[v] About four-fifths of that money goes into the state's general fund, where it supports a variety of public investments in the economy—the largest components are education, health, and public safety, which together account for more than three-quarters of the 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.

House Bill 1018 would make it harder to support those investments. The Department of

Legislative Services estimates that the bill will cost $20 million in fiscal year 2018 alone, rising to $315 million per year in 2022.[vi]

The harm from reducing corporate tax rates would be felt immediately in Maryland, and it would only get worse as the tax break increases over four years. Meanwhile, 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. This does nothing to improve Maryland's economy.

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.[vii] [viii] [ix] 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—just as Kansas has experienced.[x] 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 House Ways and Means Committee give an unfavorable report to House Bill 1018.

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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] Michael Mazerov and Michael Leachman. "State Job Creation Strategies Often Off-Base." Center on Budget and Policy Priorities. February 2016. http://www.cbpp.org/research/state-budget-and-tax/state-job-creation-strategies-often-off-base.

[iii] "Site Selection Factors/Strategy." Area Development. 2016. http://www.areadevelopment.com/corporate-site-selection-factors/

[iv] Moody's, "How Maryland Measure's Up," 2015, http://thedailyrecord.com/files/2015/10/Revised-Moodys-Report.pdf.

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

[vi] Heather Ruby, "Fiscal and Policy Note: House Bill 1018," Department of Legislative Services, 2017, http://mgaleg.maryland.gov/2017RS/fnotes/bil_0008/hb1018.pdf.

[vii] 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.

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

[ix] 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.

[x] "Economic Impacts of Reducing the Maryland Corporate Income Tax Rate," Department of Legislative Services, 2013, http://mgaleg.maryland.gov/Pubs/BudgetFiscal/2013-Corporate-Income-Tax-Analysis-Report.pdf.