MARYLAND BUDGET & TAX POLICY INSTITUTE

POSITION STATEMENT

SUPPORTING

SENATE BILL 354 - Corporate Income - Combined Reporting - Pension Sustainability Trust Fund

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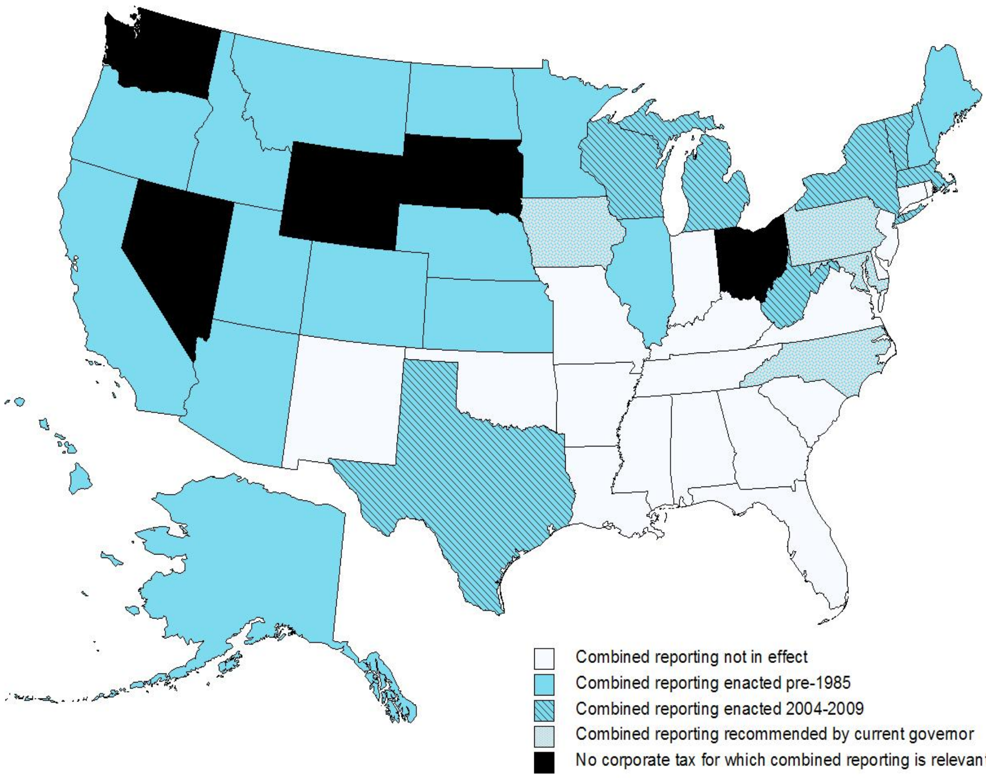
The Maryland Budget and Tax Policy Institute supports Senate Bill 354.

A growing number of states are adopting a major reform in their corporate income taxes long advocated by the Maryland Budget and Tax Policy Institute, the national Center on Budget and Policy Priorities, and other progressive tax study groups: "combined reporting." With the recent enactment of combined reporting legislation in Wisconsin, 23 of the 45 states with corporate income and similar business taxes have implemented this critical policy. The District of Columbia also enacted combined reporting this past summer.

By requiring corporate parents and subsidiaries to add their profits together, combined reporting states are able to nullify a variety of tax-avoidance strategies large multistate corporations have devised to artificially move profits out of the states in which they are earned and into states in which they will be taxed at lower rates — or not at all. Households and businesses located entirely in Maryland, which do not have the opportunities or resources to engage in interstate income-shifting, end up paying higher taxes than necessary to make up for the taxes that multi-state corporations are able to avoid.

For each multi-state company, combined reporting will change the overall profits that are subject to Maryland taxes, and the factors to calculate Maryland's share of the total. As a result, some will pay more tax, but others will save money.



Source: Center on Budget and Policy Priorities

In the ideal world, it might be good thing to collect more data and better understand the differential effects of combined reporting on different businesses before making a decision about the best tax policy. The Maryland Budget and Tax Policy Institute believes that under the state's current circumstances of great financial pressure, we know enough now to enact combined reporting while it's most needed. Refinements can easily be made down the road if credible evidence of inequities or other problems emerge.

The state's financial situation is dire, and the data from the report is good enough. Combined reporting is not an experimental policy. It is up and running in 23 states.

Solving the state's projected budget shortfall of $2 billion only with cuts will require severe losses to health, education, public safety and safety net programs. These public services are important to Maryland's business community as well as to households. The Bureau of Revenue Estimates' study shows that combined reporting revenue would not solve the state's entire problem, but it would add significant resources for needed public services. Directing the proceeds towards the state's pension liability assures that the proceeds will contribute towards reducing future budget shortfalls.

More importantly, combined reporting would provide a basis for taxing corporations that is more reflective of economic realities that the current system, and which would be less prone to a wide range of manipulative practices used by some businesses to shelter income from Maryland taxes.

For these reasons, The Maryland Budget and Tax Policy Institute requests the Budget and Taxation Committee to approve a favorable report for Senate Bill 354.