The Effective Corporate Tax Rate Transparency Act (HB 39)

This bill would require corporations to calculate and report their effective tax rate to the Comptroller's Office. The Comptroller would issue an annual study reporting the results of these calculations on an aggregate, anonymous basis with size and industry breakdowns and a discussion of the major explanatory factors.

Background:

Corporations aren't paying their fair share: Maryland currently has a corporate income tax rate of 8.25%. However, few companies actually pay this rate and in some cases pay none at all.[1] According to data collected by the Comptroller's office, in 2018 at least 48 of the 150 largest corporations in Maryland paid no corporate income taxes.[2]

The difference between actual and effective tax rates: While the actual corporate income tax rate in Maryland is 8.25%, many companies aren't actually paying this rate. Companies located or operating in Maryland are able to pay a lower rate by:

1) taking advantage of various loopholes in Maryland's laws (like its failure to require combined reporting),
2) taking advantage of various Maryland-specific tax incentives (like excessively generous apportionment rules and tax credits), and
3) taking advantage of federal tax breaks that flow into Maryland's tax code.

The State of Maryland currently has no mechanism for policymakers and the public to know the effective tax rates at which corporations are taxed. Having this information will help legislators better understand Maryland's corporate taxation policy, the financial effects of tax credits on Maryland tax revenue, and how Maryland compares to other states on these metrics.

The Solution:

This bill would compel corporations to calculate their effective tax rate by applying Maryland's apportionment formula to book income and not just taxable income, since taxable income is reduced in the ways listed above. Book income, according to generally accepted accounting principles (GAAP), more closely represents the true income of a corporation than taxable income does. To find their effective tax rate, the corporation would simply divide the amount they pay in taxes in a given year by their book income. The Comptroller will then compile and send an annual report by March 1 to the Governor and the General Assembly that identifies the average effective tax rate for all publicly traded corporations, with a breakdown of the distribution of corporations by effective tax rate, average reported book income, category, its size in income, payroll, and gross receipts.

For more information please contact:
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[1] "U.S. Corporations Pay a Far Lower Effective Tax Rate than the Statutory Rate Would Indicate-and a Recent CBO Study Doesn't Actually Contradict This," Economic Policy Institute, August 10, 2017, https://www.epi.org/blog/cbo-study-shows-that-u-s-corporations-pay-a-far-lower-effective-tax-rate-than-thestatutory-rate-would-indicate/.

[2] Maryland Comptroller, Letter to Sen. Paul Pinsky. Jan 20, 2022.